

# 2014 ANNUAL FINANCIAL REPORT



**UNITED STATES MARINE CORPS**  
**SCHEDULE OF BUDGETARY ACTIVITY**  
**FOR FISCAL YEAR 2014**

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## Message from the Fiscal Director of the Marine Corps



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
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WASHINGTON, DC 20350-3000

April 2015

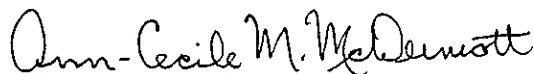
The United States Marine Corps is the nation's crisis response force. Throughout more than a decade of sustained combat operations ashore, we continued to deploy thousands of Marines aboard amphibious warships around the globe. Today, the Marine Corps provides unique, sea-based capabilities to the joint force; continues to play a critical role across the full range of military operations; and serves as America's force in readiness -- forward deployed to rapidly respond to crises throughout the world. Additionally, with two-thirds of the Marine Corps' operational forces assigned to the Pacific, the Marine Corps is ready to meet the President's strategic focus on the Asia-Pacific region. Even as we draw down from a wartime footing and work within a fiscally constrained environment, we will not waiver from our commitment to being the most ready force when the nation is least ready.



The Marine Corps Fiscal Year 2014 (FY14) Annual Financial Report (AFR) provides detailed financial information that reflects our continued focus on effective stewardship of taxpayer resources as we meet mission requirements. In particular, this AFR provides further specifics on the Marine Corps resources that are included in the Department of the Navy (DoN) FY14 AFR and highlights examples of how the Marine Corps supports the Secretary of the Navy's AFR Agency Head Message. The Marine Corps approach to audit readiness has been to heighten current financial discipline, improve processes and systems, and focus on accounting treatment details while remaining aligned with the strategic direction of the Department of Defense (DoD) and the DoN.

In December 2013, the Marine Corps obtained an unqualified audit opinion on our FY12 General Fund Schedule of Budgetary Activity, which we view as an important first step to full financial statement auditability. Continuing to build on that success, we completed audit work for our FY13 and FY14 Schedules of Budgetary Activity (SBA). Each year, we have expanded the inclusion of prior year and current year appropriations in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as we build toward the Statement of Budgetary Resources and then full financial statement auditability. As the lead Service in accomplishing SBA audits, the Marine Corps audits also continue to reveal DoD-wide issues that need to be resolved across the Department. During the final stages of our FY14 audit, the auditor and the DoD Inspector General (DoDIG) identified questions about DoD's use of Treasury suspense accounts that could not be fully answered prior to the audit end date. Consequently, a disclaimer of opinion was issued on our FY14 audit, and the DoDIG rescinded our FY12 unqualified opinion until the issues are resolved. We continue to support the Defense Finance and Accounting Service and the DoDIG as they address these concerns. In parallel, we continue to develop and implement corrective actions for audit findings identified to date, and we remain on track for full financial statement auditability by FY17.

Accountability is a foundational precept of the Marine Corps. The transparency afforded by having auditable financial statements further demonstrates our commitment to responsible financial management. The FY14 audit of this financial report attests to the Marine Corps' commitment to maintaining accurate and precise financial information, implementing process and system improvements, and ensuring sound leadership oversight.



ANN-CECILE M. McDERMOTT  
Fiscal Director of the Marine Corps

## Management's Discussion & Analysis

The United States Marine Corps (USMC) was established on 10 November 1775 to provide security to naval vessels and boarding parties, and to conduct limited land engagements in support of naval operations. Fast-forward to the 20th century and beyond, the Marine Corps pioneered the concept of close air support and developed the doctrine of (and still leads in) amphibious operations that became vital during the island hopping campaigns in the Pacific during World War II. After the war, Congress codified the roles and missions of the Marine Corps in the National Security Act of 1947, which include:

- Seizing or defending advanced naval bases and to conduct such land operations as may be essential to the prosecution of a naval campaign.
- Providing detachments and organizations for service in armed vessels for the Navy or for the protection of naval property on naval stations and bases.
- Developing with the other Armed Forces, tactics, techniques, and equipment employed by landing forces in amphibious operations.
- Training and equipping, as required, Marine forces for airborne operations.
- Developing with other Armed Forces, doctrine, procedures, and equipment of interest to the Marine Corps for airborne operations which are not provided for by the Army.
- Expanding from peacetime components to meet the needs of war in accordance with mobilization plans.

### **The United States Marine Corps America's Expeditionary Force in Readiness**

As Marines, we maintain the highest standards and we constantly seek to improve. We will continue to attack by:

- Maintaining a first-rate, well-trained total force of Marines in a high state of readiness.
- Prioritizing the support of those Marines in harm's way.
- Developing the fielding MAGTF capabilities that will ensure that the Marine Corps remains an innovative, relevant, naval, expeditionary force-in-readiness.
- Building upon our success in leader development, professional military education, wounded warrior care and family readiness.

General Joseph Dunford  
36<sup>th</sup> Commandant of the Marine Corps

## Strategic Demands and the Security Environment

The challenges of the future operating environment will demand that our Nation maintains a force-in-readiness that is capable of global response. The strategic landscape will be characterized by competition for natural resources, violent extremism, natural disasters, social unrest, cyber-attacks, regional conflict, and proliferation of advanced weaponry and weapons of mass destruction. The expansion of modern conventional and cyber weapons to a broader range of state and non-state entities, along with the erosion of U.S. technological advantages in areas where we have long enjoyed relative superiority, is likely to continue. Further, the actions of transnational criminal organizations and violent extremist groups will continue to contribute to regional unrest and instability that directly threaten U.S. interests through piracy, trafficking and terrorism. The U.S. must expect a security landscape characterized by volatility, instability and complexity, and a growing potential among adversaries to employ weapons of mass destruction.

As Marines, we view global security challenges from a maritime perspective. The majority of these challenges reside in the congested and diverse areas where the sea and land merge—the littorals. Today, more than 80% of the world’s population currently resides within 100 miles of a coastline and this proportion is continuing to rise. Most maritime activities such as commercial shipping, fishing, and oil and gas extraction take place within 200 miles of the shore. It is no accident that the so-called “Arc of Instability” encompasses the littoral areas of South Central Asia, the Middle East, and Africa. These geographic and demographic trends indicate a future security environment with a significant maritime element.

## The Role of the Marine Corps

The Marine Corps is *the* Nation’s expeditionary force-in-readiness. Congress, specifically and uniquely, structured and prescribed the role of the Marine Corps as a “...balanced force-in-readiness, air and ground...to suppress or contain international disturbances short of large scale war.” Under this mandate, Marines are forward-deployed, forward-engaged, and postured to shape events, manage instability, project influence, and immediately respond to crises. As an inherently joint combined arms team, Marines assure access and enable heavier contingency forces to deploy from the United States in response to a major contingency.

America’s responsibility as a world leader requires an approach to the current and future strategic landscape that leverages the forward presence of our military forces in support of our diplomatic and economic approaches. As stated in the 2012 President’s Defense Strategic Guidance, “The United States will continue to lead global efforts with capable allies and partners to assure access to and use of the global commons, both by strengthening international norms of responsible behavior and by maintaining relevant and interoperable military capabilities.” The Marine Corps’ unique capabilities support this strategic approach.



## Marine Corps Operations

In 2014, Marines responded to crises around the world and remained forward-deployed and forward-engaged managing instability, building partner capacity, strengthening alliances, and projecting influence. Your Marines demonstrated the relevance of expeditionary naval forces by executing more than 30 amphibious operations, 150 Theater Security Cooperation (TSC) events, and 130 exercises around the globe. While we have drawn down our forces in Afghanistan, our operational tempo remains extraordinarily high. Most Marines in the operating forces are deploying for 7 months and spending at or below 14 months at home before redeploying. There is a strong demand signal for Marines and tailored Marine Air Ground Task Forces.

## Marine Corps Missions

Marines offer an innovative portfolio of highly cost-effective means for crisis response and forward engagement. Our scalability in calamitous times and knack for respecting state sovereignty with nominally felt presence make us a vital tool to political and operational decision makers. By design, Marines seamlessly interweave into the joint force, enable interagency efforts, and are a natural partner to special operations. When U.S. interests are endangered, naval response provides readily deployable options for intercession tailored to the demands of each crisis. When conflict intensifies the Marines “flex” and scale-up to the forcible-entry demands of a major contingency, serving as a “rheostat” for the application of persuasive military power. The rapid response and early intervention of Marine forces enables access for the rest of the joint force. Operating under austere conditions ashore, Marines can sustain themselves from the sea for long periods, without the need for immediate reinforcement through ports or airfields. The integrated firepower of Marine aviation, ship amphibious operations, or expeditionary basing ashore, allows Marine forces ashore to operate with a light footprint.

### Force Able to Swiftly Intercede in Crisis

A force able to swiftly intercede in crisis buys time for civilian and military decision-makers to assess and formulate a more deliberate response. Forward-deployed Marines provide an effective crisis response capability throughout the range of military operations. Expeditionary forces can defend the territory of allies, seize key terrain, or threaten the global interests of an opponent. The inherent flexibility of these forces enables the United States to swiftly escalate or de-escalate conflict according to the aims of strategy and risk.

### Build Strong Partners

Marines build trust. Investment in building partner capacity is not “charity work,” but rather an investment in collective security throughout the global commons. Sea-based Marines tread lightly on host-nation infrastructure and sovereignty. Sized more closely to the security forces of most other nations, the Marine Corps provides a model of a tightly integrated air-ground logistics force, suitable to train effective security institutions across the globe.

### Forward Presence that Deters Conflict

Forward presence builds trust that cannot be created suddenly, when conflict looms. As our Nation’s force in readiness, the Marine Corps bolsters national credibility and deterrence through persistent forward naval engagement. With dispersed expeditionary units afloat near likely crisis areas, and



prepositioned equipment stationed forward aboard shipping, the Navy-Marine team is a visible and tangible reminder of our Nation's resolve.

### **Littoral Power Projection**

Littoral power projection capabilities enable U.S. joint forces to push open the door of access ashore. This ability to go where the Nation is not "invited" fundamentally underwrites the deterrent value of the joint force, and provides decision-makers options that complement precision strike or nuclear capabilities. Modern amphibious operations seek to achieve precise maneuvers that create and exploit seams in forces that might oppose a landing. Uniquely, Marines can operate without the requirement for nearby land bases and can sustain themselves from the sea without intact and secured ports and airfields.

### **Respond to Unpredictable Natural Forces**

Crises imposed by unpredictable natural forces create human suffering on a scale that cannot be ignored. Timely U.S. responses strengthen the credibility of its promises, and increase the effectiveness of its security deterrence. The ability of amphibious forces to provide air, ground, and sea response, without imposing burdens on already stressed infrastructure, makes them a unique contributor to U.S. capability and influence.

### **Ready When the Nation is Least Ready**

Because our Nation cannot afford to hold the entire joint force at the highest state of readiness, it has chosen to keep the Marines ready. For over half a century, the Marine Corps has complied with the mandate of the 82nd Congress to be "the most ready when the Nation is generally least ready." There is no effective substitute for ready forces that can swiftly respond to crisis. There are no effective substitutes for United States Marines.

## **Responding to Austerity with Vision**

As the Nation continues to recover economically, the Marine Corps is highly cognizant of the necessity for frugality and good stewardship of the Nation's resources. We have continued to adjust our organization, infrastructure and business practices to make the Marine Corps the best possible return for the defense dollar. Austerity may make us leaner, but we will emerge stronger as we innovate and remain the most capable Marine Corps the Nation can afford. We may have to do with less, but we will refuse to do things less well. Readiness is the currency with which we meet the Nation's security obligations; a hollow force is not an option for the Nation's crisis response force. While readiness comes at a cost, the cost of not being able to intervene or contain crisis can be catastrophic. Investment in a ready Marine Corps buys decision space for leadership decision-making, and it buys time to assemble the components of the larger joint force if conditions require it. Preserving that ready edge for the joint force is fundamental to the capability we provide to the Nation's security.

### **Reset and Reconstitute the Force**

Our mission is not complete until our equipment is reset and our force is reconstituted. That equipment is central to our ability to respond to future missions. As stewards of the taxpayer, Marines have initiated heroic efforts to recover, refurbish, and repair equipment.

### **Rebalance to the Pacific**

Rebalancing to the Pacific theater is a central element of our national strategy, which builds on the decades-long presence of Marines who operate across its land, water and airspace every day. We will not just “be” in the Pacific, we will “be effective” in the Pacific through distributed, multimission-capable MAGTFs. We will preserve our global responsiveness, while developing opportunities in this priority theater.

### **Advance Littoral Concepts**

The changing nature of the security threats to the Nation demands continued innovation. Operational Maneuver From The Sea and Ship-to-Objective Maneuver remain our capstone warfighting concepts, and we will continue to focus on our ability to execute them while furthering the concept of Single Naval Battle to provide a seamless projection of naval power from blue-water to operations ashore. We must have the organizational and process discipline to manage our concepts through their full life cycle, providing focus and guidance for innovation, training, and experimentation.

### **Invest in our Marines**

The superior qualities of the individual Marine provide our warfighting edge. That begins with recruiting and retaining the highest quality talent and applies to our active duty, reserve, and civilian workforces. Marines are expected to shoulder increasingly complex burdens in the emerging security environment. We must adapt our educational establishments and training venues to ensure their readiness for the complexity of modern conflict.

### **Invest in Innovation**

In addition to training and education, we will create mechanisms to embrace innovation across the force to move our concepts from theory to practice. We will leverage our human capital through experimentation and innovation at every level and create responsive mechanisms to reduce the “flash-to-bang” process of transforming innovative ideas to force implementation.

### **Care for our Wounded Warriors**

After a decade of war, the continued physical, moral, and mental health of all of our Marines remains paramount. Those who bear the physical and mental wounds of war must remain our first concern. We will continue to extend every effort to heal our wounded, support their families, and help young Marines and Sailors increase their resilience.

### **Keep Faith with Marines and their Families**

The faith of the American people has improved the quality of life for our Marines and families during the last decade and we must protect those gains in an era of increasing fiscal constraints. Our families share in our burdens, our values, and our risks, and their service.

## Management Assurance

Commanders and managers throughout the Marine Corps must ensure the integrity of their programs and operations. Part of this responsibility entails compliance with Federal requirements for financial reporting, financial management systems, and internal controls, such as the *Federal Financial Management Improvement Act* (FFMIA) and the *Federal Managers' Financial Integrity Act* (FMFIA). These requirements promote the production of more timely, reliable, and accessible financial information, supported by the development and implementation of more effective internal controls. Useful financial information and effective controls save money and improve efficiency, thereby enhancing public confidence in our stewardship of public resources, which is critical for the protection and sustainment of our Nation and vital U.S. interests.

### Internal Control over Financial Systems

The FFMIA of 1996 requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. FFMIA supports the same objectives as the Chief Financial Officers Act of 1990 but with a systems emphasis. For this Schedule of Budgetary Activity (SBA), the Marine Corps, Defense Finance and Accounting Service (DFAS), and Defense Logistics Agency (DLA) are jointly responsible for implementing and maintaining financial management, accounting and reporting systems that substantially comply with Federal financial management systems requirements, U.S. generally accepted accounting principles (USGAAP), and the USSGL at the transaction level.

The Marine Corps conducted an internal review of the effectiveness of internal control over financial systems, which included a Federal Information System Controls Audit Manual (FISCAM) review of the Global Combat Support System – Marine Corps (GCSS-MC) to determine the effectiveness of both general and application information technology controls. In addition, an external independent public accountant (IPA) assessed additional Marine Corps systems including the Standard Accounting Budget and Reporting System (SABRS) and the Marine Corps Total Force System (MCTFS). The review of financial systems included analyses accomplished in support of the FY 2013 SBA audit, with the observations from the FY 2010 and FY 2011 Statement of Budgetary Resources (SBR) audits and the FY 2012 SBA audit. As a result of the FY 2010 through FY 2013 SBR and SBA audits, and the FISCAM testing performed of SABRS and MCTFS during the FY 2014 SBA audit, the Department of Defense Office of Inspector General (DoDIG) characterized their findings (in aggregate) as a material weakness in financial management systems. The Marine Corps provided a qualified statement of assurance that the internal controls over financial systems, as of June 30, 2014, complied with FFMIA and OMB Circular A-123 Appendix D.

Based on the audits of FY 2010 through FY 2013, the IPA issued notices of findings and recommendations (NFRs) for SABRS, MCTFS, the Defense Cash Accountability System (DCAS) and the Defense Departmental Reporting System (DDRS). During the FY 2014 SBA audit, the IPA closed all DDRS and DCAS NFRs due to remediation efforts, and the SABRS and MCTFS teams have successfully remediated the majority of the findings issued. Currently, the Marine Corps is working to implement a new automated user provisioning system, migrate to a new system environment and update policies and procedures to reflect revised processes.

## Internal Control over Financial Reporting

Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, the President, the Congress and the public. OMB Circular A-123, Appendix A, provides specific requirements for conducting management's assessment of internal control over financial reporting, and requires the agency head to provide an assurance statement on the effectiveness of controls. Based on these assessments, the Marine Corps issued a statement of qualified assurance on the control effectiveness, with the exception of the material weakness areas summarized below.

The U.S. Marine Corps conducted an internal review of previously identified material weaknesses, and findings and recommendations identified during audits of prior years' financial statements, considering the effectiveness of the U.S. Marine Corps' internal control over financial reporting. This review aimed to support Department of the Navy (DON) Financial Improvement and Audit Readiness (FIAR) objectives by targeting specific evaluations that strengthen the integrated objectives of the DON and the U.S. Marine Corps approach to audit compliance. Based on prior year audits, the material weaknesses identified included MilSTRIP offline requisitions, timely recording of obligations, and missing receipt and acceptance supporting documentation.

In response to MilSTRIP offline requisitions, the Marine Corps proposed system changes/interface requests to DLA/EMALL representatives. The DoD Activity Address Codes (DoDAACs) Integrated Process Team (IPT) established a review process to accurately, identify commands that may utilize offline requisitioning portals (requisition authority review). In an effort to identify commands accurately, the IPT published the DoDAAC Reset Bulletin. Units and activities validated DoDAACs, resulting in the deletion of 1,147 DoDAACs and the reduction of the number of DoDAACs with requisition authority from 4,000 to 1,614. Headquarters Marine Corps (HQMC) provided an internal control structure to DLA that will reject transactions that create obligations—system-to-system restrictions developed and implemented; implemented EMALL access controls and system changes; and implementation of Proposed Defense Logistics Management System (DLMS) Change (PDC) 328: Offline Requisition processing for fund availability checks Finance/Supply) delayed due to funding. The United States Army (USA) funding will allow the advancement of DoD systems and processes that are needed to establish the interface between DoD EMALL and SABRS, the Marine Corps accounting system. Upon implementation of the interface, Funds Control Interface retesting, validation, and policy implementation will be complete. The process will enter the sustainment/monitoring phase upon completion of this milestone.

In response to the timely recording of obligations material weakness, the Marine Corps developed management guidance (SABRS Aged and Abnormal Reports Manual) and produced monthly reports through which Marine Corps Commands and HQMC can monitor and address abnormal accounting conditions. As well, a rigorous Tri-Annual Review (TAR) and confirmation process has been developed and implemented. Management guidance has been published that empowers Commands and HQMC with information resources tools that enable timely retrieval of source documentation to support audit requirements and assist in providing complete supporting documentation. In addition, the Marine Corps is making great strides towards implementing the Treasury's Internet Payment Platform (IPP) for Military Interdepartmental Purchase Requests (MIPRs) and Work Requests and mandating use of PR Builder for all non-GCSS purchases.

In response to missing receipt and acceptance supporting documentation, the Marine Corps Systems Command (MCSC) Deputy for Resource Management (DRM) implemented a process to record expenses based on each individual disbursement to alleviate carrying records in an abnormal condition when the expense is not recorded prior to posting the disbursement voucher. MCSC will continue to provide quarterly training and continue the DRM expense processing until the completion of a requested Engineering Change Proposal to mitigate the issue for the Wide Area Workflow (WAWF) system. USMC will work with OUSD (AT&L) and DLA to require external-to-USMC feeder systems to establish interfaces via the DLA Transactions Services. USMC will also establish a single repository to house all receipt and acceptance documentation. Lastly, USMC is finalizing policy and Standard Operating Procedures (SOPs) to require standard documentation for IPAC receipt and acceptance audit trails, and is participating in the Department of the Treasury's pilot IPP to ensure customer confirmation of receipt and acceptance.

#### Outstanding Material Weaknesses FY 2014

Internal Control Category	Material Weakness	Target Correction Year
Acquire-to-Retire	Military Equipment Assets	2nd Qtr, FY 2015
Acquire-to-Retire	Real Property & Garrison Property Assets	4th Qtr, FY 2016
Procure-to-Pay	MilSTRIP (Offline Requisitions)	2nd Qtr, FY 2015
Procure-to-Pay	Contracts I Reimbursable Work Orders – Grantor (Timely Recording of Obligations)	4th Qtr, FY 2015
Procure-to-Pay	Contracts I Reimbursable Work Orders – Grantor (Missing Receipt and Acceptance Supporting Documentation)	4th Qtr, FY 2015

## Financial Reporting Environment

The Marine Corps, which has been designated as a Non-OMB Reporting Entity by the DoD, maintains accountability for its appropriated general funds and shared appropriations provided by the Department of the Navy (DON). The enacted appropriations comprise the majority of the Marine Corps General Fund (USMC GF) account structure, which includes five major appropriation groups:

- Operation and Maintenance (O&M)
  - Military Personnel (MILPERS)
  - Procurement
  - Research, Development, Test, and Evaluation (RDT&E)
  - Family Housing
- } Listed on the following graphs and tables as **Investments**

*Statement of Federal Financial Accounting Concepts (SFFAC) Number 2, Entity and Display*, defines a reporting entity as one that issues general-purpose financial statements to communicate financial and related information about the entity. Although its general-purpose financial statements (incorporated within the DON's financial statements) are not presented here, the Marine Corps does meet the following criteria in order for entities to be designated as a reporting entity:

*There is a management responsibility for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.*

*The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.*

*There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.*

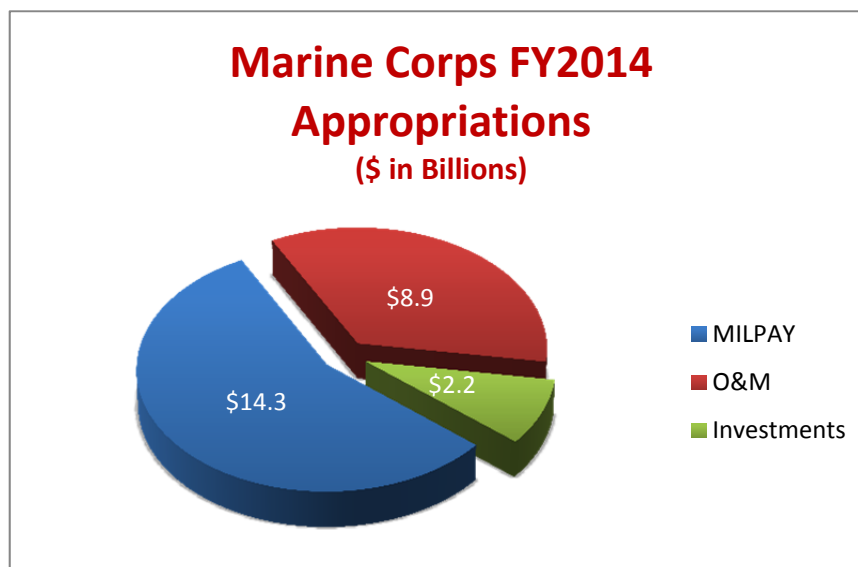
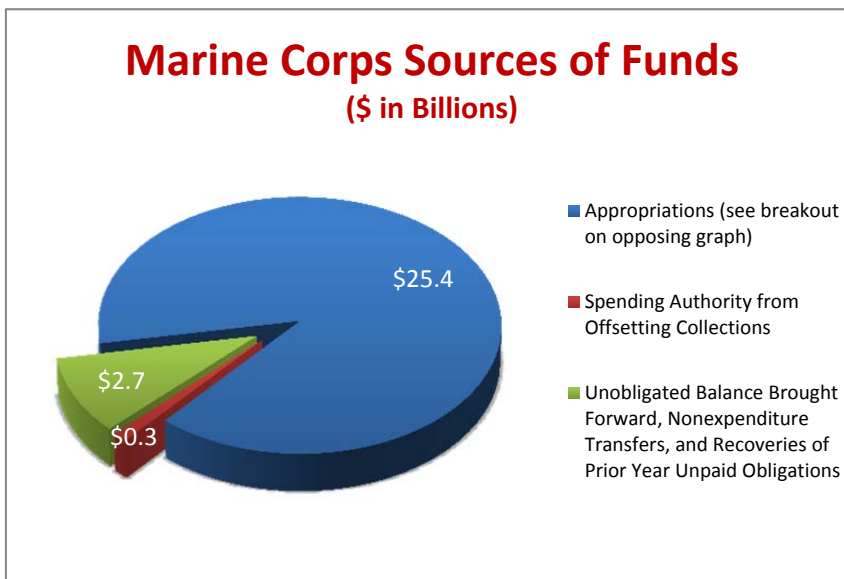
### Marine Corps Core Accounting

The SABRS accounts for all U.S. Marine Corps funds throughout the appropriation life cycle and contains financial data from the installation level up to HQMC. SABRS was designed to meet fiduciary standards established by the Government Accountability Office (GAO), Office of Management and Budget (OMB), United States Treasury Department, and the DoD. SABRS, in its operational state, has been independently tested and reviewed in accordance with OMB Office of Federal Financial Management (OFFM)/Joint Financial Management Improvement Program (JFMIP) standards.

## Financial Highlights

### Sources of Funds

To support its core mission, the Marine Corps had \$28.5 billion for FY 2014: \$25.4 billion in USMC GF Appropriations; \$345 million in Offsetting Collections; and \$2.7 billion of Unobligated Balance Forward, Nonexpenditure Transfers, and Recoveries of Prior Year Unpaid Obligations. The USMC GF are Congressional appropriations to include military personnel, operations and maintenance, and investments.



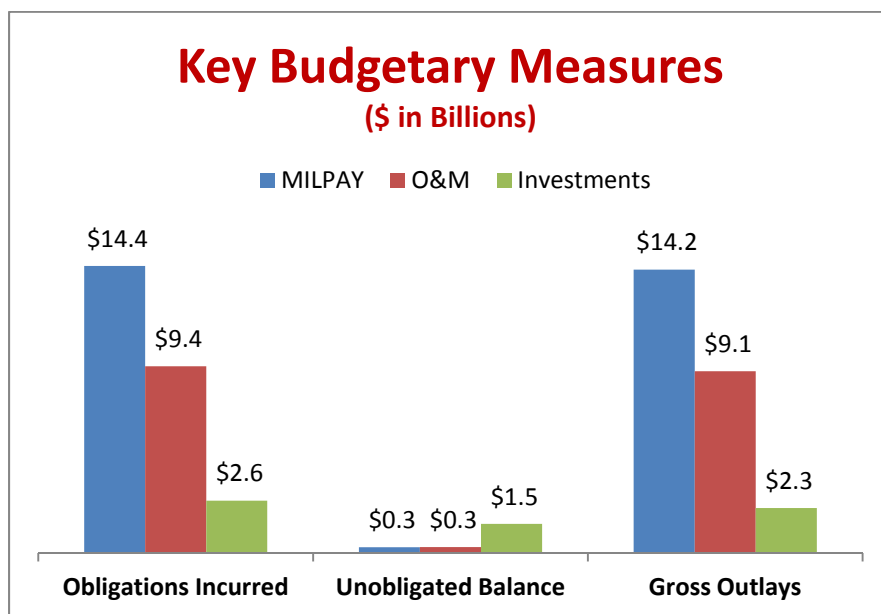
### Status of Funds

The status of the \$28.5 billion in Marine Corps budgetary resources consists of \$26.4 billion obligations incurred (direct and reimbursable) and \$2.1 billion unobligated balances at the end of the fiscal year. The total amount displayed for the status of budgetary resources equals the total budgetary resources available to the reporting entity as of the reporting date. However, the FY 2014 Auditor Adjustments are not reflected in the Analysis of Budgetary Activity.



## Analysis of Budgetary Activity

Key Budgetary Measures (\$ in Billions)	MILPAY	O&M	Investments
Obligations Incurred	\$ 14.4	\$ 9.4	\$ 2.6
Unobligated Balance	\$ 0.3	\$ 0.3	\$ 1.5
Gross Outlays	\$ 14.2	\$ 9.1	\$ 2.3



## General Fund Schedule of Budgetary Activity

As stated in the DoD Financial Management Regulation (FMR) Volume 6B Chapter 1 “Introduction and Summary” dated June 2012, DoD recognizes the Marine Corps as a Non-OMB Reporting Entity.

The FMR states that “These [Non-OMB Reporting] entities are no longer subject to the formal financial statement reporting requirements previously established by DoD and are not a required ‘reporter’ per OMB A-136. These entities have demonstrated the ability to prepare financial statements and conduct the appropriate analyses, therefore quarterly financial statements, accompanying notes, and the related variance analysis are not required to be submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for review. ...each non-OMB reporting entity will determine their internal reporting and audit requirements, as deemed necessary for continued improvement of financial data and achievement of audit objectives.”

On this premise, the Marine Corps continues with preparing comprehensive, subsidiary financial statements and related notes started in FY 2006. From the issuance of those initial financial statements, the Marine Corps has devoted significant effort toward being the first U.S. combatant Service entity to successfully undergo an independent audit of its financial statements, reports, and note disclosures, which reinforces sound financial processes and procedures.

In concert with the Department’s timeline and objectives, the Marine Corps progresses toward the same goal of reliable financial statements, backed by clean audit reporting. In so doing, the Marine Corps issues this budgetary activity schedule with the specific scope of its FY 2014, FY 2013 and FY 2012 appropriations. The following report is a schedule of those appropriations enacted for FY 2014, FY 2013 and FY 2012.

Marine Corps FY 2014 Schedule of Budgetary Activity (SBA) is derived from the September FY 2014 *SF-133, Report on Budget Execution and Budgetary Resources* (SF-133) for the FY 2014, FY 2013 and FY 2012 appropriations only. Each SF-133 (a separate report for each appropriation) is combined with totals reported on SBA. *OMB Circular A-11, Preparation, Submission and Execution of the Budget*, Section 130, “SF 133, Report on Budget Execution and Budgetary Resources” states the purposes of the SF-133 as follows:

1. Fulfill the requirement in 31 U.S.C. 1511–1514 that the President review Federal expenditures at least four times a year,
2. Allow status monitoring for funds that were apportioned on the SF-132, *Apportionment and Reapportionment Schedule* and funds that were not apportioned,
3. Provide a consistent presentation of information across programs within each agency, and across agencies, which helps program, budget, and accounting staffs to communicate,
4. Provide historical reference that can be used to help prepare the President's Budget, program operating plans, and spend-out rate estimates,
5. Provide a basis upon which to determine obligation patterns when programs are required to operate under continuing resolution, and
6. Tie an agency's financial statements to its budget execution. The compilation of an agency's SF133s should generally agree with an agency's Statement of Budgetary Resources.

The SBA and SF-133 present the following sections: Budgetary Resources, Status of Budgetary Resources, Change in Obligated Balance, and Budget Authority and Outlays.

**Department of Defense - Department of the Navy**  
**United States Marine Corps-General Fund**  
**SCHEDULE OF BUDGETARY ACTIVITY For Fiscal Year 2014, 2013 and 2012 Appropriations**  
**Years Ended September 30, 2014 and 2013 (\$ in Thousands)**

	<b>FINAL</b>	
	<b>FY14</b>	<b>FY13</b>
<b>Unobligated balance:</b>		
1000 Unobligated balance brought forward, October 1	\$ 2,260,000	\$ 1,923,246
<b>Nonexpenditure transfers:</b>		
1010 Unobligated balance transferred to other accounts (-)	\$ (16,652)	\$ -
1011 Unobligated balance transferred from other accounts	\$ 6,730	\$ 354
1012 Unobligated balance transfers between expired and unexpired accounts	\$ (9,911)	\$ -
<b>Adjustments:</b>		
1021 Recoveries of prior year unpaid obligations	\$ 509,072	\$ 321,870
<b>Anticipated transfers and adjustments:</b>		
1050 Unobligated balance, total	\$ 2,749,240	\$ 2,245,470
1060 Expired unobligated balance brought forward, October 1	\$ 392,191	
1072 Expired unobligated balance transfers between expired and unexpired accounts	\$ (10,000)	\$ -
1081 Recoveries of prior year unpaid obligations in expired accounts	\$ 453,855	\$ -
1099 Expired balance (total)	\$ 836,046	\$ -
<b>Budget authority:</b>		
<b>Appropriations:</b>		
<b>Discretionary:</b>		
1100 Appropriation	\$ 25,496,259	\$ 28,333,844
<b>Nonexpenditure transfers:</b>		
1120 Appropriations transferred to other accounts (-)	\$ (148,495)	\$ (426,204)
1121 Appropriations transferred from other accounts	\$ 83,353	\$ 37,392
<b>Adjustments:</b>		
1130 Appropriations permanently reduced (-)	\$ (18,631)	\$ (914,620)
1131 Unobligated balance of appropriations permanently reduced (-)	\$ (12,650)	\$ (242,061)
1160 Appropriation (total)	\$ 25,399,836	\$ 26,788,351
<b>Spending authority from offsetting collections:</b>		
<b>Discretionary:</b>		
1700 Collected	\$ 329,459	\$ 356,729
1701 Change in uncollected customer payments from Federal sources (+ or -)	\$ 15,760	\$ 8,423
1750 Spending authority from offsetting collections (total)	\$ 345,219	\$ 365,152
1900 Budget authority total (discretionary and mandatory)	\$ 25,745,055	\$ 27,153,503
1910 Total budgetary resources	\$ 28,494,294	\$ 29,398,973
<b>STATUS OF BUDGETARY RESOURCES</b>		
<b>Obligations incurred:</b>		
<b>Direct:</b>		
2001 Category A (by quarter)	\$ 23,431,813	\$ 24,019,889
2002 Category B (by project)	\$ 2,588,369	\$ 2,760,305
2004 Direct obligations (total)	\$ 26,020,182	\$ 26,780,194
<b>Reimbursable:</b>		
2102 Category B (by project)	\$ 340,879	\$ 358,779
2104 Reimbursable obligations (total)	\$ 340,879	\$ 358,779
2190 Obligations Incurred (total)	\$ 26,361,061	\$ 27,138,973
<b>Unobligated balance</b>		
<b>Apportioned</b>		
2201 Available in the current period	\$ 1,549,523	\$ 1,958,279
<b>Unapportioned</b>		
2403 Other	\$ 583,710	\$ 301,721
2413 Expired unobligated balance: end of year	\$ 583,710	\$ 301,721
2490 Unobligated balance, end of year	\$ 2,133,233	\$ 2,260,000
2500 Total budgetary resources	\$ 28,494,294	\$ 29,398,973
<b>CHANGE IN OBLIGATED BALANCE</b>		
<b>Unpaid obligations:</b>		
3000 Unpaid obligations, brought forward, October 1 (gross)	\$ 8,377,534	\$ 6,048,441
3010 Obligations incurred, unexpired accounts	\$ 26,075,250	\$ 26,983,804
3011 Obligations incurred, expired accounts	\$ 285,812	\$ 155,169
3020 Outlays (gross) (-)	\$ (25,561,603)	\$ (24,488,010)
3040 Recoveries of unpaid prior year obligations, unexpired accounts (-)	\$ (55,217)	\$ (24,404)
3041 Recoveries of unpaid prior year obligations, expired accounts (-)	\$ (453,855)	\$ (297,466)
<b>Obligated balance, end of year (net):</b>		
3050 Unpaid obligations, end of year	\$ 8,667,921	\$ 8,377,534
<b>Uncollected payments:</b>		
3060 Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	\$ (87,562)	\$ (79,139)
3070 Change in uncollected pymts, Fed sources, unexpired accounts (+ or -)	\$ (89,320)	\$ (50,548)
3071 Change in uncollected pymts, Fed sources, expired accounts (+ or -)	\$ 73,560	\$ 42,124
<b>Obligated balance, end of year (net):</b>		
3090 Uncollected pymts, Fed sources, end of year (-)	\$ (103,323)	\$ (87,562)
3100 Obligated balance, start of year	\$ 8,289,972	\$ 5,969,302
3200 Obligated balance, end of year	\$ 8,564,598	\$ 8,289,972
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
<b>Discretionary:</b>		
<b>Gross budget authority and outlays:</b>		
4000 Budget authority, gross	\$ 25,745,055	\$ 27,153,503
4010 Outlays from new discretionary authority	\$ 19,090,385	\$ 19,551,961
4011 Outlays from discretionary balances	\$ 6,471,218	\$ 4,936,049
4020 Outlays, gross (total)	\$ 25,561,603	\$ 24,488,010
<b>Offsets against gross budget authority and outlays:</b>		
<b>Offsetting collections (collected) from:</b>		
4030 Federal sources (-)	\$ (257,072)	\$ (281,823)
4033 Non-Federal sources (-)	\$ (72,386)	\$ (74,905)
4040 Offsets against gross budget authority and outlays (total) (-)	\$ (329,459)	\$ (356,729)
<b>Additional offsets against gross budget authority only:</b>		
4050 Change in uncollected customer payments from Federal sources (unexpired accounts) (+ or -)	\$ (89,320)	\$ (50,548)
4051 Change in uncollected customer payments from Federal sources (expired accounts) (+ or -)	\$ 73,560	\$ 42,124
4060 Additional offsets against budget authority only (total)	\$ (15,760)	\$ (8,423)
4070 Budget authority, net (discretionary)	\$ 25,399,836	\$ 26,788,351
4080 Outlays, net (discretionary)	\$ 25,232,145	\$ 24,131,281
<b>Budget authority and outlays, net (total)</b>		
4180 Budget authority, net (discretionary and mandatory)	\$ 25,399,836	\$ 26,788,351
4190 Outlays, net (discretionary and mandatory)	\$ 25,232,145	\$ 24,131,281

## Notes to the General Fund Schedule of Budgetary Activity

### Background

Marine Corps leadership has entered into agreement with the Department of Defense, Office of Inspector General (DoDIG) to submit and provide support to a Marine Corps General Fund (USMC GF) Schedule of Budgetary Activity audit for the fiscal year ended September 30, 2014. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the DoDIG agreement was based on results of the attribute assessment performed by OUSD(C) Financial Improvement and Audit Readiness (FIAR) and DoDIG review and U.S. Government Accountability Office (GAO) comments and guidance. The following notes to the Schedule of Budgetary Activity (SBA) are an integral part of the report:

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.A. Basis of Presentation

The United States Marine Corps (USMC), a component of the Department of the Navy (DON), has prepared the SBA to report on USMC GF appropriations warranted in FY 2014, FY 2013 and FY 2012 as highlighted in Note 1.B. The SBA has been prepared from the books and records of USMC GF, to the extent applicable, based on U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board, and specific guidance contained in the Treasury Financial Manual (TFM) and the Department of Defense (DoD) Financial Management Regulation (FMR). The SBA reports the activity of specific budgetary resources provided to the USMC and their use/status. Primarily, the SBA reflects the funding provided (appropriations enacted, apportioned, and allotted), the use of those funds via obligations (undelivered and delivered orders), payments and available balances until the appropriation expires and is cancelled in the U. S. Treasury. The SBA is created using detailed transaction information collected from the Standard Accounting, Budgeting and Reporting System (SABRS) and the Defense Departmental Reporting System (DDRS).

### 1.B. Appropriations and Funds

The USMC GF receives appropriations and funds as general and special funds. These appropriations and funds may be either provided solely to USMC GF or shared with other DON activities. The USMC GF uses these appropriations and funds to execute its mission and subsequently reports on resource usage. General funds are used for financial transactions funded by Congressional appropriations, including military personnel, operation and maintenance, research and development, and procurement. Special funds accounts are used to record government receipts reserved for a specific purpose. The appropriations received for a specific purpose are not within the scope of the SBA.

**Appropriations and Funds included in the  
Schedule of Budgetary Activity  
FY 2014, FY 2013 and FY 2012 Appropriations**

<b>Appropriation Number</b>	<b>Appropriation Name</b>
17 2014/2014 0735	Family Housing Operations, Navy, (FHOPS,N)
17 2013/2013 0735	Family Housing Operations, Navy, (FHOPS,N)
17 2012/2012 0735	Family Housing Operations, Navy, (FHOPS,N)
17 2014/2014 1105	Military Pay, Marine Corps (MPMC)
17 2013/2013 1105	Military Pay, Marine Corps (MPMC)
17 2012/2012 1105	Military Pay, Marine Corps (MPMC)
17 2014/2014 1106	Operation and Maintenance, Marine Corps (O&M, MC)
17 2013/2013 1106	Operation and Maintenance, Marine Corps (O&M, MC)
17 2012/2012 1106	Operation and Maintenance, Marine Corps (O&M, MC)
17 2014/2014 1107	Operation and Maintenance, Marine Corps Reserve (O&M, MCR)
17 2013/2013 1107	Operation and Maintenance, Marine Corps Reserve (O&M, MCR)
17 2012/2012 1107	Operation and Maintenance, Marine Corps Reserve (O&M, MCR)
17 2014/2014 1108	Reserve Personnel, Marine Corps (RPMC)
17 2013/2013 1108	Reserve Personnel, Marine Corps (RPMC)
17 2012/2012 1108	Reserve Personnel, Marine Corps (RPMC)
17 2014/2016 1109	Procurement, Marine Corps (PMC)
17 2013/2015 1109	Procurement, Marine Corps (PMC)
17 2012/2014 1109	Procurement, Marine Corps (PMC)
17 2014/2015 1319	Research, Development, Test, and Evaluation, Navy (RDT&E,N)
17 2013/2014 1319	Research, Development, Test, and Evaluation, Navy (RDT&E,N)
17 2012/2013 1319	Research, Development, Test, and Evaluation, Navy (RDT&E,N)
17 2014/2016 1508	Procurement, Ammunition Navy & Marine Corps (PANMC,N)
17 2013/2015 1508	Procurement, Ammunition Navy & Marine Corps (PANMC,N)
17 2012/2014 1508	Procurement, Ammunition Navy & Marine Corps (PANMC,N)

### 1.C. Basis of Accounting

The USMC employs accrual accounting and recognizes expenses against legal encumbrances as services are received or rendered, whether paid or not. As such and for the purpose of the SBA, resources are aligned against obligated balances (undelivered and delivered) where an expectation exists that a consequent collection or outlay will result (either immediately or in the future) from action, agreement, or delivery when recognized and realized. Many USMC GF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. Originally, these systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most USMC GF financial and nonfinancial legacy systems recorded information primarily on a budgetary basis. Therefore, the USMC enters adjustments into its GF financial management systems to meet all full-accrual accounting requirements.

The DoD is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP. The USMC core accounting system SABRS is a transaction driven general ledger accounting system that utilizes standardized transactions for processing. The

USMC GF management recognizes the existence of USMC GF dependencies related to DoD financial and nonfinancial systems. SABRS is interfaced with DoD approved business enterprise systems, such as the Defense Travel System, Standard Procurement System, Defense Civilian Personnel System, Defense Cash Accountability System and DDRS. These interfaces improve financial reporting and eliminate manual recording by capturing data from the source systems. Until all USMC GF financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, USMC GF financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

### **1.D. Funds with the U.S. Treasury**

The USMC GF monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of USMC GF cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. In addition, DFAS sites and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account.

### **1.E. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations of undelivered and delivered orders-unpaid in the source system and those reported by the U.S. Treasury. Supported disbursements and collections are evidenced by corroborating documentation. In accordance to the DoD policy, USMC allocates supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal expenses. Supported undistributed disbursements and collections are then applied to reduce expenses accordingly. Similarly, unsupported undistributed disbursements and collections are recorded as disbursements and collections in transit and reduce nonfederal expenses.

### **1.F. Significant Accounting Estimate**

The USMC developed and is utilizing a significant accounting estimate for the reporting period of FY 2014, which includes \$145.9 million of un-liquidated obligations (the value after a downward adjustment of \$46.5 million), related to Transportation Account Code (TAC) Standard Document Numbers (SDNs). Transportation Account Code SDNs are utilized by the USMC to capture shipping costs from a number of different sources throughout the DoD. The USMC has estimated this adjustment based on prior years' liquidations that occurred between FY08 - FY13 and known process trends to more accurately reflect the obligation balance at yearend. The USMC has implemented this additional step for specific SDNs to strengthen the USMC financial presentation and compliance with all Federal and DoD regulation.

## NOTE 5. APPORTIONMENT OF OBLIGATIONS INCURRED

Obligations incurred represent the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (CAT A) and Category B (CAT B), as defined in OMB Circular A-11, Part 4, Instructions on Budget Execution. CAT A are apportions of budgetary resources by fiscal quarters, i.e. quarter one (October 1 through December 31), quarter two (January 1 through March 31), quarter three (April 1 through June 30) and quarter four (July 1 through September 30). CAT B are apportions of budgetary resources by activity, projects, objects or a combination of these categories.

	Direct	Reimbursable	Totals
Category A	\$23,431,813	\$0	\$23,431,813
Category B	\$2,588,369	\$340,879	\$2,929,248
Total	\$26,020,182	\$340,879	\$26,361,061

\* Figures rounded to the nearest thousand dollars

## NOTE 6. UNDELIVERED ORDERS AT THE END OF THE PERIOD

The Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. USMC's Undelivered Orders represent obligated amounts designated for future payment of goods and services ordered but not received.

The Undelivered Orders – Unpaid account balance includes an accrual estimate of \$533.4 million reclassified from Undelivered Orders – Unpaid account to Delivered Orders – Unpaid account in FY14.

As of 30 September 2014 and 2013	2014	2013
Total Undelivered Orders at the End of the Period	\$7,077,692	\$7,255,755

\* Figures rounded to the nearest thousand dollars



## Other Accompanying Information

Department of Defense - Department of the Navy  
United States Marine Corps - General Fund  
DETAILED SCHEDULE OF BUDGETARY ACTIVITY  
For Fiscal Year 2014, 2013, and 2012 Appropriations (\$ in Thousands)

	Audit Adjustment (Beg. Bal.)	1105	1106	1107	1108	1109	Sum of Direct Appropriations
<b>Unobligated balance:</b>							
1000 Unobligated balance brought forward, October 1	\$ 78,168	\$ 199,509	\$ 132,403	\$ 8,539	\$ 17,022	\$ 1,563,967	\$ 1,921,439
<b>Nonexpenditure transfers of unobligated balance to or from other accounts:</b>							
1010 Unobligated balance transferred to other accounts (-)	\$ -	\$ -	\$ -	\$ -	\$ (183)	\$ (16,469)	\$ (16,652)
1011 Unobligated balance transferred from other accounts	\$ -	\$ -	\$ -	\$ -	\$ 242	\$ 6,488	\$ 6,730
1012 Unobligated balance transfers between expired and unexpired accounts	\$ -	\$ (10,000)	\$ -	\$ -	\$ -	\$ -	\$ (10,000)
<b>Adjustments:</b>							
1020 Adjustment of unobligated balance brought forward, October 1 (+ or -)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1021 Recoveries of prior year unpaid obligations	\$ 137,158	\$ 284,449	\$ 13,191	\$ 15,449	\$ 44,425	\$ -	\$ 494,673
1050 Unobligated balance, total	\$ 78,168	\$ 336,667	\$ 406,852	\$ 21,731	\$ 32,530	\$ 1,598,411	\$ 2,396,190
<b>Expired unobligated balance available for adjustment only:</b>							
1060 Expired unobligated balance brought forward, October 1	\$ 31,590	\$ 199,509	\$ 132,403	\$ 8,539	\$ 17,022	\$ -	\$ 357,473
1072 Expired unobligated balance transfers between expired and unexpired accounts	\$ -	\$ (10,000)	\$ -	\$ -	\$ -	\$ -	\$ (10,000)
1081 Recoveries of prior year unpaid obligations in expired accounts	\$ 137,158	\$ 284,449	\$ 13,191	\$ 15,449	\$ -	\$ -	\$ 450,248
1089 Other expired balances withdrawn (-)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1099 Expired balance (total)	\$ 31,590	\$ 336,667	\$ 406,852	\$ 21,731	\$ 32,471	\$ -	\$ 797,721
<b>Budget authority:</b>							
<b>Appropriations:</b>							
<b>Discretionary:</b>							
1100 Appropriation	\$ 13,544,021	\$ 8,767,420	\$ 267,851	\$ 670,243	\$ 1,366,942	\$ -	\$ 24,616,477
<b>Nonexpenditure transfers:</b>							
1120 Appropriations transferred to other accounts (-)	\$ (8,800)	\$ (115,200)	\$ -	\$ (46)	\$ (24,449)	\$ -	\$ (148,495)
1121 Appropriations transferred from other accounts	\$ 34,093	\$ 13,835	\$ 185	\$ 35,240	\$ -	\$ -	\$ 83,353
<b>Adjustments:</b>							
1130 Appropriations permanently reduced (-)	\$ (10,594)	\$ (8,037)	\$ -	\$ -	\$ -	\$ -	\$ (18,631)
1131 Unobligated balance of appropriations permanently reduced (-)	\$ -	\$ -	\$ -	\$ -	\$ (12,650)	\$ -	\$ (12,650)
1160 Appropriation (total)	\$ -	\$ 13,558,720	\$ 8,658,018	\$ 268,036	\$ 705,437	\$ 1,329,843	\$ 24,520,054
<b>Discretionary:</b>							
1700 Collected	\$ 29,287	\$ 291,658	\$ 1,080	\$ 2,539	\$ 398	\$ -	\$ 324,963
1701 Change in uncollected customer payments from Federal sources (+ or -)	\$ 2,195	\$ 13,619	\$ (21)	\$ 436	\$ (370)	\$ -	\$ 15,859
1750 Spending authority from offsetting collections (total)	\$ -	\$ 31,483	\$ 305,277	\$ 1,059	\$ 2,975	\$ 28	\$ 340,821
1900 Budget authority total (discretionary and mandatory)	\$ -	\$ 13,590,203	\$ 8,963,295	\$ 269,095	\$ 708,412	\$ 1,329,871	\$ 24,860,875
1910 Total budgetary resources	\$ 78,168	\$ 13,926,869	\$ 9,370,147	\$ 290,825	\$ 740,942	\$ 2,928,282	\$ 27,257,066
<b>STATUS OF BUDGETARY RESOURCES</b>							
<b>Obligations incurred:</b>							
<b>Direct:</b>							
2001 Category A (by quarter)	\$ 13,617,112	\$ 8,782,130	\$ 274,495	\$ 725,836	\$ -	\$ -	\$ 23,399,574
2002 Category B (by project)	\$ -	\$ -	\$ -	\$ -	\$ 1,745,492	\$ -	\$ 1,745,492
2004 Direct obligations (total)	\$ -	\$ 13,617,112	\$ 8,782,130	\$ 274,495	\$ 725,836	\$ 1,745,492	\$ 25,145,066
<b>Reimbursable:</b>							
2102 Category B (by project)	\$ 31,473	\$ 300,802	\$ 1,063	\$ 2,975	\$ 112	\$ -	\$ 336,425
2104 Reimbursable obligations (total)	\$ -	\$ 31,473	\$ 300,802	\$ 1,063	\$ 2,975	\$ 112	\$ 336,425
2190 Obligations incurred (total)	\$ -	\$ 13,648,585	\$ 9,082,933	\$ 275,558	\$ 728,811	\$ 1,745,604	\$ 25,481,491
<b>Unobligated balance</b>							
<b>Apportioned</b>							
2201 Available in the current period	\$ 44,769	\$ 47,855	\$ 215	\$ 1,172	\$ 1,182,677	\$ -	\$ 1,276,687
<b>Unapportioned</b>							
2403 Other	\$ 78,168	\$ 233,516	\$ 239,360	\$ 15,052	\$ 10,959	\$ -	\$ 498,887
2413 Expired unobligated balance: end of year	\$ 78,168	\$ 233,516	\$ 239,360	\$ 15,052	\$ 10,959	\$ -	\$ 498,887
2490 Unobligated balance, end of year	\$ 78,168	\$ 278,284	\$ 287,215	\$ 15,267	\$ 12,131	\$ 1,182,677	\$ 1,775,574
2500 Total budgetary resources	\$ 78,168	\$ 13,926,869	\$ 9,370,147	\$ 290,825	\$ 740,942	\$ 2,928,282	\$ 27,257,066
<b>CHANGE IN OBLIGATED BALANCE</b>							
<b>Unpaid obligations:</b>							
3000 Unpaid obligations, brought forward, October 1 (gross)	\$ (88,325)	\$ 1,056,867	\$ 4,708,908	\$ 170,685	\$ 42,599	\$ 1,467,206	\$ 7,446,266
3010 Obligations incurred, unexpired accounts	\$ 13,545,061	\$ 8,928,991	\$ 268,884	\$ 707,299	\$ 1,745,604	\$ -	\$ 25,195,840
3011 Obligations incurred, expired accounts	\$ 103,524	\$ 153,942	\$ 6,674	\$ 21,512	\$ -	\$ -	\$ 285,651
3020 Outlays (gross) (-)	\$ (13,481,833)	\$ (8,865,158)	\$ (245,425)	\$ (713,651)	\$ (1,431,277)	\$ -	\$ (24,737,344)
3040 Recoveries of unpaid prior year obligations, unexpired accounts (-)	\$ -	\$ -	\$ -	\$ -	\$ (44,425)	\$ -	\$ (44,425)
3041 Recoveries of unpaid prior year obligations, expired accounts (-)	\$ (137,158)	\$ (284,449)	\$ (13,191)	\$ (15,449)	\$ -	\$ -	\$ (450,248)
<b>Obligated balance, end of year (net):</b>							
3050 Unpaid obligations, end of year	\$ (88,325)	\$ 1,086,462	\$ 4,642,233	\$ 187,627	\$ 42,309	\$ 1,737,109	\$ 7,695,740
<b>Uncollected payments:</b>							
3060 Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	\$ (1,858)	\$ (83,587)	\$ 2	\$ (364)	\$ (400)	\$ -	\$ (86,207)
3070 Change in uncollected pymts, Fed sources, unexpired accounts (+ or -)	\$ (8,905)	\$ (80,007)	\$ (78)	\$ (800)	\$ 370	\$ -	\$ (89,419)
3071 Change in uncollected pymts, Fed sources, expired accounts (+ or -)	\$ 6,709	\$ 66,388	\$ 99	\$ 364	\$ -	\$ -	\$ 73,560
<b>Obligated balance, end of year (net):</b>							
3090 Uncollected pymts, Fed sources, end of year (-)	\$ -	\$ (4,054)	\$ (97,206)	\$ 23	\$ (800)	\$ (29)	\$ (102,065)
3100 Obligated balance, start of year	\$ (88,325)	\$ 1,055,009	\$ 4,625,321	\$ 170,687	\$ 42,235	\$ 1,466,807	\$ 7,360,059
3200 Obligated balance, end of year	\$ (88,325)	\$ 1,082,408	\$ 4,545,027	\$ 187,650	\$ 41,510	\$ 1,737,080	\$ 7,393,675
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>							
<b>Discretionary:</b>							
<b>Gross budget authority and outlays:</b>							
4000 Budget authority, gross	\$ -	\$ 13,590,203	\$ 8,963,295	\$ 269,095	\$ 708,412	\$ 1,329,871	\$ 24,860,875
4010 Outlays from new discretionary authority	\$ 12,591,628	\$ 5,292,290	\$ 128,877	\$ 668,197	\$ 178,930	\$ -	\$ 18,860,123
4011 Outlays from discretionary balances	\$ 890,005	\$ 3,572,868	\$ 116,548	\$ 45,454	\$ 1,252,347	\$ -	\$ 5,877,221
4020 Outlays, gross (total)	\$ -	\$ 13,481,833	\$ 8,865,158	\$ 245,425	\$ 713,651	\$ 1,431,277	\$ 24,737,344
<b>Offsets against gross budget authority and outlays:</b>							
<b>Offsetting collections (collected) from:</b>							
4030 Federal sources (-)	\$ (16,100)	\$ (233,139)	\$ (1,080)	\$ (2,539)	\$ (398)	\$ -	\$ (253,256)
4033 Non-Federal sources (-)	\$ (13,187)	\$ (58,519)	\$ -	\$ -	\$ -	\$ -	\$ (71,707)
4040 Offsets against gross budget authority and outlays (total) (-)	\$ -	\$ (29,287)	\$ (291,658)	\$ (1,080)	\$ (2,539)	\$ (398)	\$ (324,963)
<b>Additional offsets against gross budget authority only:</b>							
4050 Change in uncollected customer payments from Federal sources (unexpired accounts) (+ or -)	\$ (8,905)	\$ (80,007)	\$ (78)	\$ (800)	\$ 370	\$ -	\$ (89,419)
4051 Change in uncollected customer payments from Federal sources (expired accounts) (+ or -)	\$ 6,709	\$ 66,388	\$ 99	\$ 364	\$ -	\$ -	\$ 73,560
4060 Additional offsets against budget authority only (total)	\$ -	\$ (2,195)	\$ (13,619)	\$ 21	\$ (436)	\$ 370	\$ (15,859)
4070 Budget authority, net (discretionary)	\$ -	\$ 13,558,720	\$ 8,658,018	\$ 268,036	\$ 705,437	\$ 1,329,843	\$ 24,520,054
4080 Outlays, net (discretionary)	\$ -	\$ 13,452,546	\$ 8,573,500	\$ 244,345	\$ 711,112	\$ 1,430,879	\$ 24,412,382
<b>Budget authority and outlays, net (total)</b>							
4180 Budget authority, net (discretionary and mandatory)	\$ -	\$ 13,558,720	\$ 8,658,018	\$ 268,036	\$ 705,437	\$ 1,329,843	\$ 24,520,054
4190 Outlays, net (discretionary and mandatory)	\$ -	\$ 13,452,546	\$ 8,573,500	\$ 244,345	\$ 711,112	\$ 1,430,879	\$ 24,412,382

As reported on SF-133, Report on Budget Execution and Budgetary Resources

Department of Defense - Department of the Navy  
 United States Marine Corps - General Fund  
 DETAILED SCHEDULE OF BUDGETARY ACTIVITY  
 For Fiscal Year 2014, 2013, and 2012 Appropriations (\$ in Thousands)

	0735	1319	1508	Sum of Shared Appropriations	Sum of Direct and Shared Appropriations	Audit Adjustment (Curr. Activity)	Total
<b>Unobligated balance:</b>							
1000 Unobligated balance brought forward, October 1	\$ 2,172	\$ 198,876	\$ 59,345	\$ 260,393	\$ 2,181,832		\$ 2,260,000
<b>Nonexpenditure transfers of unobligated balance to or from other accounts:</b>							
1010 Unobligated balance transferred to other accounts (-)	\$ -	\$ -	\$ -	\$ -	\$ (16,652)		\$ (16,652)
1011 Unobligated balance transferred from other accounts	\$ -	\$ -	\$ -	\$ -	\$ 6,730		\$ 6,730
1012 Unobligated balance transfers between expired and unexpired accounts	\$ -	\$ 89	\$ -	\$ 89	\$ (9,911)		\$ (9,911)
<b>Adjustments:</b>							
1020 Adjustment of unobligated balance brought forward, October 1 (+ or -)	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
1021 Recoveries of prior year unpaid obligations	\$ 342	\$ 11,878	\$ 2,180	\$ 14,399	\$ 509,072		\$ 509,072
1050 Unobligated balance, total	\$ 2,514	\$ 210,842	\$ 61,525	\$ 274,882	\$ 2,671,072		\$ 2,749,239
<b>Expired unobligated balance available for adjustment only:</b>							
1060 Expired unobligated balance brought forward, October 1	\$ 2,172	\$ 955	\$ -	\$ 3,128	\$ 360,601		\$ 392,191
1072 Expired unobligated balance transfers between expired and unexpired accounts	\$ -	\$ -	\$ -	\$ -	\$ (10,000)		\$ (10,000)
1081 Recoveries of prior year unpaid obligations in expired accounts	\$ 342	\$ 3,266	\$ -	\$ 3,608	\$ 453,855		\$ 453,855
1089 Other expired balances withdrawn (-)	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
1099 Expired balance (total)	\$ 2,514	\$ 4,221	\$ -	\$ 6,735	\$ 804,456		\$ 836,046
<b>Budget authority:</b>							
<b>Appropriations:</b>							
<b>Discretionary:</b>							
1100 Appropriation	\$ 33,750	\$ 684,558	\$ 161,474	\$ 879,782	\$ 25,496,259		\$ 25,496,259
<b>Nonexpenditure transfers:</b>							
1120 Appropriations transferred to other accounts (-)	\$ -	\$ -	\$ -	\$ -	\$ (148,495)		\$ (148,495)
1121 Appropriations transferred from other accounts	\$ -	\$ -	\$ -	\$ -	\$ 83,353		\$ 83,353
<b>Adjustments:</b>							
1130 Appropriations permanently reduced (-)	\$ -	\$ -	\$ -	\$ -	\$ (18,631)		\$ (18,631)
1131 Unobligated balance of appropriations permanently reduced (-)	\$ -	\$ -	\$ -	\$ -	\$ (12,650)		\$ (12,650)
1160 Appropriation (total)	\$ 33,750	\$ 684,558	\$ 161,474	\$ 879,782	\$ 25,399,836		\$ 25,399,836
<b>Discretionary:</b>							
1700 Collected	\$ 680	\$ 645	\$ 3,171	\$ 4,496	\$ 329,459		\$ 329,459
1701 Change in uncollected customer payments from Federal sources (+ or -)	\$ (0)	\$ (619)	\$ 521	\$ (98)	\$ 15,760		\$ 15,760
1750 Spending authority from offsetting collections (total)	\$ 679	\$ 26	\$ 3,692	\$ 4,397	\$ 345,219		\$ 345,219
1900 Budget authority total (discretionary and mandatory)	\$ 34,429	\$ 684,584	\$ 165,166	\$ 884,179	\$ 25,745,055		\$ 25,745,055
1910 Total budgetary resources	\$ 36,944	\$ 895,427	\$ 226,690	\$ 1,159,061	\$ 28,416,127		\$ 28,494,294
<b>STATUS OF BUDGETARY RESOURCES</b>							
<b>Obligations incurred:</b>							
<b>Direct:</b>							
2001 Category A (by quarter)	\$ 32,239	\$ -	\$ -	\$ 32,239	\$ 23,431,813		\$ 23,431,813
2002 Category B (by project)	\$ -	\$ 681,824	\$ 161,053	\$ 842,877	\$ 2,588,369		\$ 2,588,369
2004 Direct obligations (total)	\$ 32,239	\$ 681,824	\$ 161,053	\$ 875,116	\$ 26,020,182		\$ 26,020,182
<b>Reimbursable:</b>							
2102 Category B (by project)	\$ 699	\$ 63	\$ 3,692	\$ 4,454	\$ 340,879		\$ 340,879
2104 Reimbursable obligations (total)	\$ 699	\$ 63	\$ 3,692	\$ 4,454	\$ 340,879		\$ 340,879
2190 Obligations incurred (total)	\$ 32,938	\$ 681,887	\$ 164,744	\$ 879,570	\$ 26,361,061		\$ 26,361,061
<b>Unobligated balance</b>							
<b>Apportioned</b>							
2201 Available in the current period	\$ 1,579	\$ 209,312	\$ 61,946	\$ 272,837	\$ 1,549,523		\$ 1,549,523
<b>Unapportioned</b>							
2403 Other	\$ 2,427	\$ 4,228	\$ -	\$ 6,654	\$ 505,542		\$ 583,710
2413 Expired unobligated balance: end of year	\$ 2,427	\$ 4,228	\$ -	\$ 6,654	\$ 505,542		\$ 583,710
2490 Unobligated balance, end of year	\$ 4,005	\$ 213,540	\$ 61,946	\$ 279,491	\$ 2,055,065		\$ 2,133,233
2500 Total budgetary resources	\$ 36,944	\$ 895,427	\$ 226,690	\$ 1,159,061	\$ 28,416,127		\$ 28,494,294
<b>CHANGE IN OBLIGATED BALANCE</b>							
<b>Unpaid obligations:</b>							
3000 Unpaid obligations, brought forward, October 1 (gross)	\$ 11,574	\$ 461,303	\$ 546,716	\$ 1,019,593	\$ 8,465,859		\$ 8,377,534
3010 Obligations incurred, unexpired accounts	\$ 32,860	\$ 681,805	\$ 164,744	\$ 879,410	\$ 26,075,250		\$ 26,075,250
3011 Obligations incurred, expired accounts	\$ 78	\$ 82	\$ -	\$ 160	\$ 285,812		\$ 285,812
3020 Outlays (gross) (-)	\$ (25,242)	\$ (664,797)	\$ (134,220)	\$ (824,259)	\$ (25,561,603)		\$ (25,561,603)
3040 Recoveries of unpaid prior year obligations, unexpired accounts (-)	\$ -	\$ (8,612)	\$ (2,180)	\$ (10,792)	\$ (55,217)		\$ (55,217)
3041 Recoveries of unpaid prior year obligations, expired accounts (-)	\$ (342)	\$ (3,266)	\$ -	\$ (3,608)	\$ (453,855)		\$ (453,855)
<b>Obligated balance, end of year (net):</b>							
3050 Unpaid obligations, end of year	\$ 18,928	\$ 466,516	\$ 575,061	\$ 1,060,505	\$ 8,756,245		\$ 8,667,921
<b>Uncollected payments:</b>							
3060 Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	\$ -	\$ (641)	\$ (714)	\$ (1,356)	\$ (87,562)		\$ (87,562)
3070 Change in uncollected pymts, Fed sources, unexpired accounts (+ or -)	\$ 0	\$ 619	\$ (521)	\$ 98	\$ (89,320)		\$ (89,320)
3071 Change in uncollected pymts, Fed sources, expired accounts (+ or -)	\$ -	\$ -	\$ -	\$ -	\$ 73,560		\$ 73,560
<b>Obligated balance, end of year (net):</b>							
3090 Uncollected pymts, Fed sources, end of year (-)	\$ 0	\$ (23)	\$ (1,235)	\$ (1,257)	\$ (103,323)		\$ (103,323)
3100 Obligated balance, start of year	\$ 11,574	\$ 460,661	\$ 546,002	\$ 1,018,237	\$ 8,378,297		\$ 8,289,972
3200 Obligated balance, end of year	\$ 18,929	\$ 466,493	\$ 573,826	\$ 1,059,248	\$ 8,652,922		\$ 8,564,598
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>							
<b>Discretionary:</b>							
<b>Gross budget authority and outlays:</b>							
4000 Budget authority, gross	\$ 34,429	\$ 684,584	\$ 165,166	\$ 884,179	\$ 25,745,055		\$ 25,745,055
4010 Outlays from new discretionary authority	\$ 17,787	\$ 198,954	\$ 13,521	\$ 230,262	\$ 19,090,385		\$ 19,090,385
4011 Outlays from discretionary balances	\$ 7,455	\$ 465,842	\$ 120,699	\$ 593,997	\$ 6,471,218		\$ 6,471,218
4020 Outlays, gross (total)	\$ 25,242	\$ 664,797	\$ 134,220	\$ 824,259	\$ 25,561,603		\$ 25,561,603
<b>Offsets against gross budget authority and outlays:</b>							
<b>Offsetting collections (collected) from:</b>							
4030 Federal sources (-)	\$ (0)	\$ (645)	\$ (3,171)	\$ (3,816)	\$ (257,072)		\$ (257,072)
4033 Non-Federal sources (-)	\$ (679)	\$ -	\$ -	\$ (679)	\$ (72,386)		\$ (72,386)
4040 Offsets against gross budget authority and outlays (total) (-)	\$ (680)	\$ (645)	\$ (3,171)	\$ (4,496)	\$ (329,459)		\$ (329,459)
<b>Additional offsets against gross budget authority only:</b>							
4050 Change in uncollected customer payments from Federal sources (unexpired accounts) (+ or -)	\$ 0	\$ 619	\$ (521)	\$ 98	\$ (89,320)		\$ (89,320)
4051 Change in uncollected customer payments from Federal sources (expired accounts) (+ or -)	\$ -	\$ -	\$ -	\$ -	\$ 73,560		\$ 73,560
4060 Additional offsets against budget authority only (total)	\$ 0	\$ 619	\$ (521)	\$ 98	\$ (15,760)		\$ (15,760)
4070 Budget authority, net (discretionary)	\$ 33,750	\$ 684,558	\$ 161,474	\$ 879,782	\$ 25,399,836		\$ 25,399,836
4080 Outlays, net (discretionary)	\$ 24,562	\$ 664,151	\$ 131,049	\$ 819,763	\$ 25,232,145		\$ 25,232,145
<b>Budget authority and outlays, net (total)</b>							
4180 Budget authority, net (discretionary and mandatory)	\$ 33,750	\$ 684,558	\$ 161,474	\$ 879,782	\$ 25,399,836		\$ 25,399,836
4190 Outlays, net (discretionary and mandatory)	\$ 24,562	\$ 664,151	\$ 131,049	\$ 819,763	\$ 25,232,145		\$ 25,232,145

As reported on SF-133, Report on Budget Execution and Budgetary Resources

## DoDIG Transmittal



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22304-1500

April 24, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD  
COMMANDANT OF THE MARINE CORPS  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT  
AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE ACCOUNTING SERVICE  
NAVAL INSPECTOR GENERAL

SUBJECT: Transmittal of the Disclaimer of Opinion on the United States Marine Corps FY 2014  
Statement of Budgetary Activity (Report No. DODIG-2015-113)

We contracted with the independent public accounting firm of Grant Thornton to audit the United States Marine Corps (USMC) FY 2014 Statement of Budgetary Activity (SBA) as of September 30, 2014. The contract required Grant Thornton to conduct the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and Office of Management and Budget audit guidance. Grant Thornton's Independent Auditor's Report is attached.

Grant Thornton's audit resulted in a disclaimer of opinion. Grant Thornton could not obtain sufficient, competent evidential matter on transactions currently recorded in DoD-wide clearing accounts by the USMC's accounting service provider. As a result, Grant Thornton could not conclude whether material USMC transactions included within these DoD-wide clearing accounts were appropriately omitted from the September 30, 2014, general fund SBA. Accordingly, Grant Thornton did not express an opinion on the USMC FY 2014 SBA as of September 30, 2014.

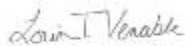
In connection with the contract, we reviewed Grant Thornton's report and related documentation and discussed the audit results with Grant Thornton representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express:

- an opinion on the USMC FY 2014 SBA;
- conclusions about the effectiveness of internal control;
- an opinion on whether the USMC's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996;" or
- conclusions on whether USMC complied with laws and regulations.

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Grant Thornton is responsible for the attached auditor's report, dated April 24, 2015, and the conclusions expressed in the report. However, our review disclosed no instances in which Grant Thornton did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.



Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

Attachments:  
As stated

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## Independent Auditor's Report



### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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#### Report on the schedule of budgetary activity

We were engaged by the Department of Defense (DoD) Office of the Inspector General to audit the accompanying fiscal year 2014 general fund schedule of budgetary activity (SBA) of the United States Marine Corps (Marine Corps) for the year ended September 30, 2014 and the related notes to the financial schedule.

#### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the SBA in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on the SBA based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### Basis for disclaimer of opinion

We were unable to obtain sufficient, competent evidential matter regarding transactions currently recorded in DoD-wide clearing accounts by the Marine Corps' accounting service provider to allow us to conclude whether material Marine Corps transactions included within these DoD-wide clearing accounts were appropriately recorded in the fiscal year 2014 general fund SBA for the year ended September 30, 2014.

**Disclaimer of opinion**

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the fiscal year 2014 general fund SBA for the year ended September 30, 2014.

**Matter of emphasis**

The statement of budgetary resources (SBR) provides information about how budgetary resources were made available, as well as their status at the end of the period for all unexpired and expired appropriations. The SBA presents less financial information than an SBR. Specifically, as described in note 1 to the general fund SBA, the SBA only presents information related to appropriations (including shared appropriations) beginning with the fiscal year 2012. We were engaged to audit the fiscal year 2014 SBA instead of a full-scope audit of the SBR.

**Other matters**

We were engaged for the purpose of forming an opinion on the fiscal year 2014 general fund SBA. The Management's Discussion and Analysis (MD&A), included in the AFR, is presented for purposes of additional analysis and is not a required part of the SBA, but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. Because of the significance of the matter in the basis for disclaimer of opinion paragraph, it is inappropriate to and we do not express an opinion on this supplementary information.

**Other information**

We were engaged for the purpose of forming an opinion on the fiscal year 2014 general fund SBA. The message from the Fiscal Director of the Marine Corps, included in the AFR, is presented for purposes of additional analysis and is not a required part of the SBA. Such information has not been subjected to the auditing procedures applied in the audit of the SBA, and accordingly, we express no opinion on it.

Our report is intended solely for the information and use of management of the Marine Corps, the DoD Office of the Inspector General, the OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

**Report on internal control over financial reporting**

In planning and performing our audit of the general fund SBA for the year ended September 30, 2014, we considered the Marine Corps' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the SBA, but not for the purpose of expressing an opinion on the effectiveness of the Marine Corps' internal control. Accordingly, we do not express an opinion on the effectiveness of the Marine Corps' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control which are described below.

**Material weakness #1 - Lack of Marine Corps oversight over Defense Finance and Accounting Service (DFAS)**

Marine Corps management does not provide adequate oversight over its accounting service provider, DFAS. For several business processes, including collections and outlays, the Marine Corps relies on DFAS for initiation, authorization, processing, recording and reporting of information that affects the financial reporting and other controls relevant to the Marine Corps accounting and reporting processes. The Marine Corps depends on the service provider to account for transactions properly, monitor issues and perform research and reconciliation functions without sufficient Marine Corps reviews in place. While the execution of these functions by the service provider is acceptable, the Marine Corps is accountable and responsible for the accuracy of the transactions and the associated reporting. As such it is imperative that Marine Corps have an understanding of DFAS' controls related to these activities as well as its own oversight controls to ensure the accuracy of the information. During the audit we identified multiple weaknesses related to the work performed by DFAS on behalf of the Marine Corps that went undetected and uncorrected in fiscal year 2014. The issues are summarized below.

- The Marine Corps does not have appropriate processes and related controls over transactions recorded in clearing accounts. As a result, the Marine Corps' SBA may be misstated. A clearing account temporarily holds collections or outlays awaiting research and correction, until they can be posted to the proper appropriation. On behalf of the Marine Corps and other DoD organizations, DFAS manages several DoD-wide clearing accounts including: 3875 - "Budget Clearing Account (suspense)", 3880 - "Unavailable Check Cancellations and Overpayments (suspense)", and 3885 - "Undistributed Intragovernmental Payments". These DoD-wide clearing accounts exist for the Department of the Navy (17), Department of the Army (21), Department of the Air Force (57) and the Other Defense Organizations (97). Additionally, there are sub-accounts under some of the clearing accounts. For example, an account could be numbered 17.3885.0 or 17.3885.7. Including department codes, and sub-accounts, DFAS identified twenty clearing accounts. The Marine Corps does not have clearing accounts dedicated to their use. Instead Marine Corps transactions are recorded in Department of Navy clearing accounts. During our testing, we noted one transaction for \$10.9 million where DFAS





disbursed funds directly from clearing account 3885 in August 2014 and did not clear it from the clearing account until October 2014. As a result, this outlay was not reported on the SBA as of September 30, 2014.

The Marine Corps provided the account balances and supporting detail for the twenty DoD-wide clearing accounts. We were able to confirm the balances in the accounts to Government-wide accounting reports from the Department of Treasury. However, the total amounts in the detail files did not agree to the balance of the accounts. Additionally, we did not have sufficient information to be confident that our identification of transactions as collections or outlays was accurate. As a result, the amounts described in this finding are not audited and cannot be relied upon as accurate. The twenty accounts reported had combined net balances in excess of \$313M as of September 30, 2014. The \$313M balance is the net of the collection and outlay transactions recorded in the account. The collection transactions totalled \$6.4B and the outlay transactions totalled \$6.1B.

In addition, we noted that neither the Marine Corps nor DFAS research and clear the clearing accounts within the 60-day period required by the Treasury Financial Manual (TFM) Bulletin 2011-06 and the DoD Financial Management Regulation (FMR). Also, the Marine Corps does not have a documented process for monitoring DFAS' reconciliation of these accounts to ensure that the Marine Corps transactions posted to clearing accounts are recorded in SABRS in the proper accounting period. When reviewing the detailed files, we noted that of the \$313M recorded in the accounts, some amounts were recorded prior to fiscal year 2012 but we were unable to determine the value of these transactions. Some of these transactions appear to have been recorded in the clearing account in 1988. Since the fiscal year 2014 SBA only contains activity that occurred in that fiscal year related to appropriations beginning with the fiscal year 2012, transactions occurring prior to fiscal year 2012 are not included in the fiscal year 2014 SBA. Until research and reconciliation is completed, the Marine Corps and DFAS are unable to determine whether the transactions in these clearing accounts belong to the Marine Corps or another agency. Therefore, Marine Corps outlays and collections may be materially understated at year-end.

- We identified a \$25M manual outlay from appropriation 1105, "Military Personnel, Marine Corps", to account 6026, "Pay of the Marines Corps, Deposit Fund" during our testing of the military payroll reconciliation. The 6026 account is a deposit account for funds collected from individual Marines who are on permanent duty assignment overseas. The funds in the 6026 account are managed by DFAS. In fiscal year 2013, DFAS identified approximately a \$41 million shortfall in the 6026 account and requested the funds from the Marine Corps to replenish that account. In response to this request, the Marine Corps disbursed \$25M in fiscal year 2014 from appropriation 1105 to account 6026. However, the Marine Corps did not obtain from DFAS supporting documentation, reconciliations or detailed schedules to support the shortfall noted by DFAS to ensure the disbursed amount was valid.
- DFAS incorrectly processed a vendor credit owed to the Marine Corps to the Department of the Army. The credit was transferred to the Marine Corps via an Intra-government Payment and Collection voucher crossing fiscal years. While the result was that the transaction was



recorded properly, the practice of recording entries to other agencies and transferring the funds after the fact represents a material control weakness.

#### *Recommendations*

While this issue has DoD-wide implications, the Marine Corps is responsible for the accuracy of its reported financial information. Therefore, in order to address the risks to the Marine Corps' financial information noted in the material weakness, Marine Corps management should not only work with the Office of the Under Secretary of Defense (Comptroller) to address the broader Department wide issue, they should also consider the following:

- The Marine Corps should monitor whether DFAS is researching, reconciling and clearing transactions recorded in clearing accounts in a timely manner.
- The Marine Corps should implement a standardized process to periodically review transactions posted by DFAS to the Marine Corps' general ledger from the clearing accounts to ensure they are valid and accurately recorded. This process should include formal dispute procedures to ensure discrepancies are researched and reconciled in a timely manner.
- The Marine Corps should update its service level agreement with DFAS to clearly outline what controls are performed by DFAS and what compensating user controls the Marine Corps has in place.
- The Marine Corps should perform an independent analysis of their deposit funds to ensure funds reported are appropriate and sufficient.

#### *Material weakness #2 – Inadequate management review and oversight of Marine Corps' financial reporting*

While performing our audit procedures, we identified deficiencies in management's review and oversight of Marine Corps financial reporting. Specifically, we found that Marine Corps management review and oversight failed to (1) identify fund balance with treasury (FBwT) reconciliation errors, (2) ensure the timely and accurate recording of transactions and (3) properly prepare and present the SBA. A detailed description of these errors is provided below.

#### *Fund balance with treasury reconciliation errors*

Per the Department of Treasury's TFM, federal agencies must reconcile their United States Standard General Ledger (USSGL) account 1010, "Fund Balance With Treasury," and any related subaccounts with the government-wide accounting Account Statement on a minimum of a monthly basis. They must review those accounts each month to maintain the accuracy and reliability of their fund balance records for both prior and current year appropriations. The Marine Corps, in conjunction with DFAS, its accounting service provider, prepares the monthly FBwT reconciliations. We identified a lack of management oversight and review procedures that resulted in numerous errors that went uncorrected by management. The bullet points below provide examples of the reconciliation errors we identified.



- The September 30, 2014 general ledger amount for USSGL account 4902 "Delivered Orders, Obligations Paid" included in the FBwT reconciliation did not agree to the September 30, 2014 Standard Accounting, Budgeting, and Reporting System (SABRS) general ledger balance. This was due to the reconciliation containing the sum of USSGL accounts 4902 and 4972 "Downward Adjustments of Prior-Year Paid Delivered Orders - Obligations, Refunds Collected". As a result, the reconciliation contained errors that were unresolved by Marine Corps management.
- The line item balances used in the FBwT reconciliation did not agree to amounts reflected on the SBA. This was due to the Marine Corps reclassifying collections to outlays for appropriations with abnormal balances. As a result, the reconciliation did not agree to balances reflected on the SBA as of September 30, 2014 and the error went undetected by Marine Corps management.
- The Marine Corps incorrectly accounted for unmatched transactions. Unmatched transactions represent outlays and collections where a corresponding obligation could not be identified. The Marine Corps accounted for unmatched outlays by subtracting the prior year unmatched total from the gross unmatched detail file rather than accounting for the actual balances within the detail file by fiscal year in the FBwT reconciliation. Transactions are cleared from the unmatched file once errors are resolved and the outlay or collection is matched in SABRS. As such, the unmatched balance on the reconciliation does not provide a true representation of the unmatched transactions remaining on the unmatched file that have not been matched to an obligation in SABRS and cleared from the report.
- A late register journal voucher was erroneously omitted in the portion of FBwT reconciliation at September 30, 2014 that pertained to the fiscal year 2013 appropriations. Late registry transactions represent timing differences between the Defense Cash Accountability System (DCAS) and the Department of Treasury. Therefore, the journal vouchers impacting the FBwT reconciliation were not complete.
- The FBwT reconciliation and the posting media file did not agree. The posting media file contains the detail of the daily transactions recorded in DCAS, the Marine Corps disbursing system. The issue was caused by the DCAS A027 monthly file not matching the monthly and daily/delta files, requiring correcting journal vouchers to be recorded. As a result, the FBwT reconciliation does not reflect the actual posting media balances per the supporting posting media detail file.

These errors were discovered in the course of our audit, rather than being detected by the Marine Corps. Although the amounts involved were individually immaterial, in the aggregate, the failure to identify these errors constitutes a material weakness in internal controls.

#### *Lack of timely and accurate recording of transactions*

The recording of transactions in a timely manner is essential to effective financial management and reporting. During the performance of our audit procedures, we noted several errors related to the timing of the Marine Corps' recording of obligations. In some cases, the Marine Corps





recorded obligations prior to execution of the related supporting documentation. For the estimate which drives the obligation related to the transportation of things (TOT) process, the Marine Corps did not prepare the analysis to support the obligation for over four months after the end of the fiscal year. In numerous cases, the Marine Corps records outlays prior to the related obligations or expenses and corrects this after the fact. Details regarding these conditions are below.

- The Marine Corps obligates funds based on authorized obligating documents such as signed contracts and orders. The obligation amounts associated with these documents should be recorded to the Marine Corps accounting records after the obligating agreement, such as a contract, has been properly authorized by an individual with authority to commit the Marine Corps. The DoD FMR requires that obligations be recorded within 10 days of being legally incurred. We noted obligations posted prior to the obligating documents being signed. We also noted 55 out of 1,229 instances where the Marine Corps posted obligations to SABRS more than 10 days after the obligating document was completed.
- The Marine Corps did not timely perform the required liquidation analysis to ensure an appropriate amount of obligations are recorded for the TOT process. The Marine Corps uses an estimation methodology to account for obligations related to the TOT business process. The estimation methodology is based on historical liquidation trends which enables Marine Corps management to assess the reasonableness of its TOT obligations and if necessary, properly adjust its general ledger accounts to reflect a more accurate obligation amount for TOT. For fiscal year 2014, the estimation analysis was not completed during the fiscal year or during the year-end close process. Rather, the Marine Corps performed and reviewed the analysis in February 2015, over four months after the end of fiscal year 2014. Due to this delay in performing the analysis, adjustments to the Marine Corps estimated obligations, if required, would not be included in the financial statements originally provided to the auditors.
- The Marine Corps records outlays prior to recording expenses and obligations, even in situations where an advance was not paid. Statement of Federal Financial Accounting Standards (SFFAS) 1, "Accounting for Selected Asset and Liabilities" requires that obligations and expenses be recorded when incurred. Obligations and expenses are incurred prior to payment unless an advance is provided. To correct these issues, the Marine Corps records a large quantity of journal vouchers each month representing material amounts of obligations and expenses. These journal vouchers are based on outlay data recorded in SABRS rather than on individual support documentation. As such, Marine Corps management cannot validate that these journal vouchers represent valid obligations or expenses but rather assumes that the outlays were valid for purposes of recording the journal vouchers. This could result in misstatements to the Marine Corps' obligations, expenses and receivables.

Without a robust review process to detect these timing issues, material errors may not be identified and corrected timely.

*Improper preparation and presentation of the SBA*

The completeness and accuracy of the SBA is vitally important to provide readers with reliable financial information about an organization. The Marine Corps, in conjunction with DFAS, prepares quarterly and annual financial statements. Our audit identified numerous errors not previously recognized and corrected as a result of any management review procedures. The bullet points below provide examples of the errors we identified.

- Two line items were excluded from the SBA. Specific lines omitted from the SBA were 2190 "Obligations incurred" and 2413 "Expired unobligated balance: end of year". The omissions occurred since Marine Corps management did not use the most recent TFM guidance during the preparation of the quarterly and year-end SBA and SF-133s "Report on Budget Execution and Budgetary Resource". Line 2190 is a summary line that totals all obligations incurred. Line 2413 contains the amount of expired unobligated balances that have not been used for valid adjustments and are no longer available for new obligations.
- The Marine Corps developed and used an estimation methodology for the disclosure of undelivered orders in the notes to the SBA. The methodology was developed after the auditors informed the Marine Corps of the required disclosure, required numerous revisions and did not provide justification for significant management assumptions. The estimation methodology was necessary due to failures in obtaining receipt and acceptance documentation, and due to the lack of a systematic accrual methodology to accrue expenses when they are incurred. These conditions resulted in a misstatement of undelivered orders.
- Numerous errors were noted in the draft Annual Financial Report (AFR) which includes the SBA. Errors in the SBA included incorrect beginning balances brought forward, inaccurate language regarding auditor adjustments on the SBA and subtotals and totals that were not mathematically accurate. Errors in the AFR, outside of the SBA, included missing agency head message required by OMB Circular A-136 and missing assurance statement required by A-136.

*Recommendations*

In order to mitigate the risks noted in this material weakness, management should consider the following:

- Improve the Marine Corps management review processes over reoccurring activities such as monthly FBwT reconciliations, quarterly schedule preparation, annual TOT estimation analysis and the annual preparation of the AFR.
- Develop a comprehensive month-end, quarter-end and year-end close-out process. This process should include a checklist of activities that must be performed, assign responsibility for preparation and review of each activity as well as establish due dates to ensure the general ledger and trial balance are presented fairly.
- Implement monitoring controls over the recording of transaction to ensure that all transactions are properly recorded in a timely manner.



**Material weakness #3 – Improper application of federal accounting standards and guidelines**

The Marine Corps does not follow proper accounting principles when recording various types of transactions. We identified numerous transactions recorded in the general ledger which did not follow applicable accounting guidance. Although the amounts involved were individually immaterial, in the aggregate, the failure to identify these errors represent a material weakness in internal control. The failure to follow proper guidance caused multiple lines of the SBA and a related footnote to contain misstatements. Examples of improper application of accounting principles are listed below.

- The Marine Corps does not properly account for funds received through special measures agreements. When the Marine Corps receives payments from the Other Defense Organizations Fund as a result of special measures agreements between the Department of State and foreign governments, the Marine Corps records the transaction as a refund rather than a collection. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, defines refunds as a repayment of an excess payment that is directly related to previous obligations and outlays. The special measures agreements transactions are not repayments; they are transfers from another fund. The proper treatment of this transaction is to classify the transaction as a collection. The definition of "collections" per OMB Circular A-11 includes "business-like transactions with the public, including payments from the public in exchange for goods and services." As a result of the Marine Corps' current accounting treatment obligations, outlays and collections are understated.
- The Marine Corps does not properly account for upward and downward adjustments of prior year unpaid obligations. Adjustments are initially recorded to USSGL 4801 and 4901. An automated systemic process then analyzes the net change in the obligation and expense balances at the Standard Document Number (SDN) level and a journal voucher is used to record an upward or downward adjustment. This process is limited by the fact that upward and downward adjustments are netted. OMB guidance states that upward and downward adjustments of prior year unpaid obligations are reported separately. Downward adjustments are reported on line 1021 "Recoveries of Prior Year Obligations" while upward adjustments are reported on lines 3010 and 3011 "Obligations Incurred". Additionally, Department of the Treasury Bureau of the Fiscal Service transaction codes indicate that adjustments should be recorded at the transaction level. Recording the initial transactions in USSGL 4801 and 4901 is not proper accounting treatment. As a result of the Marine Corps current accounting treatment, both obligations incurred and recoveries may be over or understated.
- The Marine Corps does not record a receivable when they identify an overpayment associated with military payroll. As such, when the Marine Corps collects a military payroll associated debt, they record the transaction as a negative liquidation rather than the collection of a receivable. They record the transaction in this manner due to the fact that they view the collection as a refund. OMB Circular A-11 defines refunds as a repayment of an excess payment that is directly related to previous obligations and outlays. The repayments made by the Marines do not meet this definition and should not be accounted for in such a manner. Instead an offsetting collection should be recorded. The Marine Corps' current treatment inappropriately reduces the obligations incurred on the SBA, causing a misstatement. It also





understates collections received. As a result of the Marine Corps' current accounting treatment obligations, outlays and collections are understated.

- The Marine Corps improperly accounts for exchange transactions related to the Materials Return Program (MRP), by recording the event as a refund. The MRP allows the Marine Corps to receive credits for excess and obsolete items returned to the source of supply. When the Marine Corps returns an item to the source of supply they record a negative liquidation; which results in a debit USSGL account 4902. This treatment is consistent with the guidance provided in the DoD FMR but not in compliance with USSGL. OMB Circular A-11 defines refunds as a repayment of an excess payment that is directly related to previous obligations and outlays. The return of items under the MRP do not fit this definition. The proper treatment is to classify the transaction as a collection given that the transaction is a result of sales of repairable parts to trading partners. The definition of "collections" per OMB Circular A-11 includes "business-like transactions with the public, including payments from the public in exchange for goods and services." As a result of the Marine Corps' current accounting treatment obligations, outlays and collections are understated.
- The Marine Corps improperly accounts for refunds related to prior year paid obligations. The Marine Corps records the transaction in the same manner as a refund of current year paid obligations; outlays are reduced by debiting USSGL 4902. Based upon OMB A-11 guidance the refunds of prior year paid obligations should be accounted for as an offsetting collection. As a result of this treatment collections, obligation and outlays are understated.
- The Marine Corps deposited tax credits received from North Carolina into their appropriated accounts and recorded a negative liquidation. Because these funds are non-entity assets, they should have been deposited into a Department of Treasury Miscellaneous Receipt Fund and not reported in SABRS and therefore not included in the SBA. This resulted in the Marine Corps' obligations and outlays being misstated.

#### *Recommendations*

In order to mitigate the risks of the issues noted in the significant deficiency, Marine Corps management should consider the following:

- Use current generally accepted accounting principles hierarchy and USSGL in determining proper accounting treatment rather than utilizing internal policies such as the DoD FMR.
- Notify the Office of the Under Secretary of Defense (Comptroller) when the DoD FMR differs from generally accepted accounting principles.
- Discontinue the use of temporary obligations currently used to track overpayments.
- Implement an additional data element in the SABRS which would allow the end-user to identify true upward and downward adjustments at the transaction level at the time the transaction is recorded.



**Material weakness #4 – Invalid authorization of obligations**

Marine Corps management lacks internal controls over the authorization of obligations. Obligations are legally binding agreements or actions that result in outlays, whether immediately or in the future. Per the DoD FMR, an obligation should be recorded only when supported by documentary evidence of the transaction. Marine Corps Order 4400.150F, Chapter 6, Section 6003 requires that in order to enter into an obligation, a Marine Corps employee must be authorized, in writing, to do so. Entering the government into obligations is an inherently governmental function, as defined by Federal Acquisition Regulation (FAR) 7.503, and must be performed by employees of the federal government. During the audit, we identified that contracting officers lack warrant authority, written authorization to obligate the government was missing and Marine Corps contractors were authorizing obligations. Details on these issues are provided below.

- During our internal control testing of vendor pay outlays, we noted ten of 45 samples where the Marine Corps could not provide valid warrant authority for the contracting officer who bound the federal government into an obligation. In accordance with the Federal Acquisition Regulation Part 1, to enter into an obligation, contracting officers must be appointed in writing on a SF 1402, "Certificate of Appointment", which provides any limitations on the scope of authority for that individual. Appointing officials must maintain copies of all valid, active appointments.
- We noted five of 90 Military Standard Requisition and Issue Procedures (MILSTRIP) and travel samples for which the Marine Corps did not provide valid documentation that the individual authorizing the obligation was approved to do so. Per the DoD FMR Volumes 5 and 9, an accountable official must be appointed in writing with a DD Form 577, "Appointment/Termination Record" in order to bind the government into obligations.
- We noted three of 45 MILSTRIP samples where the Marine Corps contractors authorized the obligations and entered the Marine Corps into an obligation. Per FAR 7.503, "Performance of Commercial Activities," binding the government by contract and funds outlay are inherently governmental activities. All three instances occurred where the contract included explicit language providing the contractors the authority to submit requisitions. This contradicts guidance stated in FAR 7.503.

The SBA represents all budgetary obligations and outlays entered by the Marine Corps. Inadequate internal control over obligations could result in unauthorized individuals entering the Marine Corps into erroneous or unnecessary obligations.

**Recommendations**

In order to mitigate the risks noted in this material weakness, management should consider the following:

- Enforce the current policy that requires all contracting officers and accountable officials to have and maintain valid authorizing documentation such as warrant authority or DD Form 577.



- Institute a process for the periodic management review of DD Forms 577 and contracting officer warrant authority to ensure that accountable officials are properly authorized to legally bind the government into obligations.
- Standardize the use of the DD Form 577 as the only appointment record to authorize approving officials.
- Enforce the requirements of FAR 7.503 by not allowing contractors to authorize obligations and outlays on behalf of the government as this is an inherently governmental function.

**Material weakness #5 – Inability to maintain adequate documentation**

The Marine Corps could not always provide documentation to support transactions. We noted deficiencies in the ability to maintain and provide necessary documentation to support financial transactions. The areas were MILSTRIP, temporary additional duty (TAD) travel, collections, obligations and outlays. Details of this condition are provided below.

- The testing of internal controls over MILSTRIP transactions noted control deficiencies related to the receipt and acceptance of goods. Additionally, the Marine Corps purchased items that were not included on the approved purchase order form.
- Marine Corps personnel use the Defense Travel System to submit reimbursement requests for incurred expenses associated with TAD. During our testing, we found travel reimbursements made by the Marine Corps could not always be tied back to supporting documents included as part of the reimbursement request. Additionally, documentation could not be provided to support that travel was originally authorized or that a travel expense reimbursement payment was authorized.
- Inadequate controls over the billing and collection process led to the inability of the Marine Corps to maintain and provide support documentation. For example, we found instances in which the Marine Corps could not support that the collection had been earned.
- The Marine Corps obligated funds without required documentation in 31 out of 1,229 instances. In addition, the Marine Corps obligated funds using a commitment document in 26 instances.
- The Marine Corps could not provide adequate invoice and receiving documentation. In 19 out of 45 instances the Marine Corps could not provide support for the invoice and in 11 out of 45 instances the Marine Corps could not provide a receiving report.
- The Marine Corps disbursed funds without the necessary documentation supporting why the outlay was made and how much should have been disbursed. For example we identified 21 out of 972 items for which outlays were made without having evidence of receipt of goods or services. In addition, we noted three items out of 972 that were disbursed without having received an invoice and receiving report.



With the volume of transactions and dollar amounts occurring throughout the various Marine Corps commands, it is essential for proper document retention to help support accurate and proper accounting treatment. By failing to properly document accounting transactions, the Marine Corps continues to risk disbursing improper amounts, being unable to substantiate their accounting records and having misstated balances on their SBA.

#### *Recommendations*

To address the risks of the issues noted in the material weakness, Marine Corps management should consider the following:

- Provide training on documentation requirements for recording accounting transactions to increase compliance with these requirements.
- Improve the management review process over recorded transactions ensuring that recorded amounts are supported with appropriate documents.
- Implement policies that require the use of standardized forms throughout all commands for various processes.

#### *Material weakness #8 – Inadequate A-123 internal control program*

The Marine Corps does not have a robust OMB Circular A-123 internal control program. The Marine Corps Managers' Internal Control (MCMIC) Program which implements A-123 is designed to provide reasonable assurance that effective and efficient internal control are in place throughout the Marine Corps. As part of the MCMIC Program the Commandant of the Marine Corps must annually provide assurances to the Secretary of the Navy concerning the effectiveness of the Marine Corps' internal controls. Separate Statements of Assurance for the Overall Managers' Internal Control and Internal Control over Financial Reporting processes are required. Commanders, heads of staff agencies, and managers at all levels of the Marine Corps are required to develop, execute, track and report on corrective action plans to mitigate any identified internal control weaknesses in functions, programs or operations under their authorities.

The MCMIC Program is consistent with federal requirements, however the Marine Corps' implementation of the program is ineffective and is not sufficiently resourced. For example, we noted that the Marine Corps does not self-identify deficiencies associated with internal controls over financial reporting. Details on the weaknesses in the operating effectiveness of the program are provided below.

- Marine Corps management does not proactively identify internal control deficiencies. Per OMB Circular A-123, agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic assessments, should provide the basis for the agency head's annual assessment of and report on internal control, as required by the Federal Managers' Financial Integrity Act.





- The Marine Corps did not properly document its understanding of internal control over financial reporting. For instance, the Marine Corps did not have a current process narrative for military payroll that identified and described its key internal controls.
- The Remediation Section of the Risk & Compliance Branch, the organization responsible for MCMIC, has only one staff position, which is currently vacant, dedicated to the A-123 program. Given the size, complexity and global presence of the Marine Corps, it is not reasonable to expect one staff person to conduct the internal control assessments, monitoring and reporting required by OMB Circular A-123.

#### *Recommendations*

To address the risks of the issues noted in the material weakness, Marine Corps management should consider the following:

- Design and implement a robust A-123 program that properly identifies all material weaknesses and significant deficiencies that are required to be disclosed in the Statement of Assurance.
- Significantly increase the resources committed to the A-123 program to allow the full requirements of A-123 to be implemented.

#### *Significant deficiency #1 – Information systems control weaknesses*

As a result of the IT testing performed in our audit, we noted control weaknesses that contribute to the significant deficiency in the areas of access management, configuration management and business process edit checks. Details of this condition are provided below.

- Access management deficiencies were noted related to controls designed to help prevent unauthorized access to information technology systems. Control deficiencies related to access management increase the risk that accounts may obtain unauthorized or inappropriate access to financial systems or data. Such access could lead to unauthorized activities or inappropriate disclosure of sensitive data, or incompatible roles assigned to a single user. System access control deficiencies may be exploited, in either a singular fashion or in combination, which may affect the confidentiality, integrity, or availability of Marine Corps systems and data. We noted that the Marine Corps is unable to determine whether user accounts meeting specific inactivity criteria are suspended and deleted in a timely manner as defined by policy.
- Configuration management is designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. When configuration items are not clearly documented throughout the change lifecycle there is an increased risk that unauthorized or erroneous changes to a system could be introduced to the production environment. Furthermore, without formal defined policies and procedures as well as follow-up of discrepancies identified during a compliance audit, there is an increased risk that unapproved or erroneous configuration item changes are not identified in a timely manner. The specific deficiencies identified in this category follow.



- Documentation supporting the initial authorization of configuration changes, the testing and validation of the changes and the approval of the implementation of the change was not consistently provided.
- Documentation supporting configuration compliance audit reviews was not provided.
- Business process edit checks are in place to ensure that data input, processed and produced from a system is accurate, valid and complete. Inappropriately configured or missing input edit checks increases the risk that data entered into a system will not meet the standards defined by the system. We noted that documented business rules did not reflect actual system configuration for certain edit checks.

#### *Recommendations*

In order to mitigate the risks of the issues noted in the significant deficiency, Marine Corps management should consider the following:

- Develop or implement procedures to ensure that those responsible for administering or reviewing the appropriateness of access to Marine Corps systems have the information necessary to determine when account profiles should be suspended or deleted.
- Enhance current information technology oversight and governance to ensure compliance with established configuration management and release management policies and procedures.
- Ensure configuration compliance audits include evidence of review, discrepancies noted, and follow-up actions for any irregular activity.
- Establish formal procedures to test and review edit checks to ensure compliance with documented business rules.

#### **Report on compliance with applicable provisions of laws, regulations, contracts and grant agreements and other matters**

The management of the Marine Corps is responsible for compliance with laws, regulations, grants and contract agreements, if applicable. As part of obtaining reasonable assurance about whether the Marine Corps' general fund SBA is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 14-02, and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of SBA. Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report on whether the Marine Corps' financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.



We did not test compliance with all regulations and contracts applicable to the Marine Corps. We limited our tests of compliance to the provisions of laws, regulations and contracts cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance with laws, regulations and contracts, or other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 14-02, and instances of substantial noncompliance that are required to be reported under FFMIA. Examples of these matters are described below.

**Non-compliance matter #1 – Violations of the Federal Acquisition Regulation**

During testing of the Marine Corps compliance with laws and regulations, we noted violations of the FAR. Those matters are detailed below.

- During our testing of internal controls over MILSTRIP outlays, we noted three of 45 samples in which contractors had access to the MILSTRIP systems and were able to enter the Marine Corps into obligations. Per FAR 7.503 binding the government by contract is an inherently governmental activity. Upon further review of the contract associated with these samples, we noted explicit language stating that contractors had authority to submit requisitions which contradicts guidance stated in FAR 7.503. For additional details on this condition, including our recommendations, please refer to material weakness #4 – invalid authorization of obligations.
- According to FAR Subpart 1.6, authority and responsibility to contract for authorized supplies and services is vested in the agency head, who may establish contracting activities and delegate broad authority to manage the agency's contracting functions. Agency heads or designees issue written warrants to contracting officers stating the limits of their authority. Only contracting officers have the authority to legally bind the government and to enter into, administer and terminate (if necessary) contracts for the Government. Appointing officials must maintain copies of all valid, active appointments. We found that a Marine Corps contracting officer bound the federal government to an obligations without valid warrant authority.

**Non-compliance matter #2 – Violations of appropriation law**

The Marine Corps receives money from the State of North Carolina for a portion of the sales and use taxes that contractors pay on material and supply purchases for building and repairing structures at Marine Corps Base Camp Lejeune. The Marine Corps currently records the funds received from the tax credits to their appropriated accounts. By recording the tax credit refunds in this manner, the Marine Corps is able to use the tax credits to augment appropriated funds. 31 U.S. Code § 3302(b) states that monies received from sources outside of an agency are not available for the agency use and must be deposited into the Department of Treasury as miscellaneous receipts. We were unable to identify a Marine Corps exemption to this legislation. As a result, the Marine Corps augmented their appropriation, violated the U.S. Code and could be violating provisions of the Anti-Deficiency Act by obligating or expending the tax credits.





For additional details on this condition, including our recommendations, please refer to material weakness #3 – improper application of federal accounting standards and guidelines.

**Non-compliance #3 – FFMIA non-compliance**

The Federal Financial Managers Improvement Act (FFMIA or Act) requires federal agencies to implement and maintain financial systems that comply substantially with (1) federal financial management system requirements, (2) applicable federal accounting standards and (3) the USSGL at the transaction level. While the Marine Corps is not specifically subject to the requirements of FFMIA, our contract requires us to report on the agency's compliance with the provisions of the Act. Due to the errors noted below, we find that the Marine Corps does not meet FFMIA compliance.

***Federal financial management system requirements***

During the fiscal year 2014 audit, we identified non-compliance with federal financial management systems requirements associated with both SABRS and Marine Corps Total Force System (MCTFS). For SABRS we identified weaknesses associated with business process edit checks, SABRS Table 200 Document Identifier Code (DIC) review, termination of inactive accounts, configuration management supporting documentation, user provisioning process, and separation of duties conflict. For MCTFS we found issues related to MCTFS that included configuration management compliance audit, systems configuration agreements and feeder systems authority to operate.

These information technology internal control and system security deficiencies prevents the Marine Corps from meeting federal financial management system requirements and prohibits reliable financial reporting.

***Applicable federal accounting standards***

We issued several findings in fiscal year 2014 related to the ability of Marine Corps' systems to prepare its SBA and related note disclosures as well comply with accounting principles generally accepted in the United States of America. These findings demonstrate that these weaknesses affect the Marine Corps' ability to prepare financial statements and related disclosures, budget reports, or other financial information for management decision-making purposes that are consistent with the federal accounting standards.

Material weakness #2 – "Inadequate management review and oversight of Marine Corps financial reporting" describe the following:

- Systems limitations that cause outlays to be recorded prior to the recording of obligations or expenses
- Systems limitations that affect the preparation of the undelivered orders footnote disclosure.

Due to the known deficiencies in the current Marine Corps internal control environment and systems, and their impact on the reliability, accuracy and completeness of the budgetary data



presented on the SBA, we determined that the Marine Corps does not meet PFMLA compliance requirements for federal accounting standards.

#### *USSGL at the transaction level*

During the course of testing, Grant Thornton identified numerous instances where the Marine Corps did not record transactions in full compliance with the USSGL chart of accounts descriptions and posting models. As described in material weakness #1 – “Lack of Marine Corps oversight of DFAS”, material weakness #2 – “Inadequate management review and oversight of Marine Corps financial reporting”, material weakness #3 – “Improper application of accounting principles”, and material weakness #4 – “Improper application of accounting principles”; we found:

- Systems limitations that result in outlays being recorded prior to the recording of obligations or expenses
- Systems limitations that results in the netting of upward and downward adjustments to obligations
- Systems limitations that affect controls over receipt and acceptance of goods and services

#### **Agency comments and our evaluation**

The Marine Corps’ responses to the findings identified in our audit were provided in a letter dated April 24, 2105. The Marine Corps concurred with the majority of the findings identified in our audit and acknowledged the material weaknesses. However, they non-concurred with aspects of material weaknesses #1 and #6.

Regarding material weakness #1, the Marine Corps stated that, “The Marine Corps acknowledges its ultimate accountability for all Marine Corps financial transactions and reports. However, the Marine Corps is not responsible, accountable, nor manned to provide direct oversight to the Defense Finance and Accounting Service (DFAS)”.

Grant Thornton Response: The Marine Corps is responsible and accountable for all financial transactions recorded in its financial records, whether recorded by Marine Corps personnel or DFAS personnel. In order to maintain adequate financial controls over financial reporting, the Marine Corps will need to implement sufficient controls to ensure that transactions recorded and processed by DFAS are complete and accurate.

Regarding material weakness #6, the Marine Corps stated that, “The Marine Corps does not concur with the assertion that the MCMIC program is currently ineffective or insufficiently resourced. While the dedicated resources at the Headquarters Marine Corps (HQMC) level may appear limited, the program is designed as a top-down governance, self-reporting framework that enables Commanders to leverage internal controls guidance and tools to proactively assess and identify weaknesses that may impair their ability to accomplish their assigned mission.”



Grant Thornton Response: Because OMB Circular A-123 requires a top-down approach, it is not possible for an organization of the size and complexity of the Marine Corps to implement A-123's requirements with one headquarters resource. The A-123 Implementation Guide states that agencies previously used self-evaluations but that its current guidance calls for a "top-down approach to planning, testing, and documenting internal control over financial reporting." It further states that "the Senior Assessment Team will determine the scope of financial reporting, the assessment design and methodology, and the material items to be tested." Accordingly, a self-reporting framework with minimal staffing at the headquarters level is not compliant with the guidance in the A-123 implementation guide.

The Marine Corps' letter is included in full as an exhibit to our report. The Marine Corps' responses were not subjected to the auditing procedures applied in the audit of the SBA and, accordingly, we express no opinion on the responses.

*Grant Thornton LLP*

GRANT THORNTON LLP

Alexandria, VA  
April 24, 2015



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**Exhibit I – Management comment to the independent auditor’s report on the fiscal year 2014 SBA of the Marine Corps for the year ended September 30, 2014**



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20350-3000

IN REPLY REFER TO  
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24 Apr 15

From: Fiscal Director of the Marine Corps  
To: Engagement Partner, Grant Thornton LLP

Subj: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR’S REPORT  
ON THE UNITED STATES MARINE CORPS SCHEDULE OF BUDGETARY  
ACTIVITY FOR FISCAL YEAR 2014 (CONTRACT NO. GS-23F-8196H)

1. Unless otherwise noted, the Marine Corps concurs with the majority of the Independent Auditor’s Report on the United States Marine Corps Schedule of Budgetary Activity (SBA) for Fiscal Year (FY) 2014 and the Report on Internal Control and Compliance with Laws and Regulations.

2. The Marine Corps acknowledges the material weaknesses identified in the report. The Marine Corps will continue to focus on the coordinated efforts to modernize financial management systems and improve the accuracy of its financial reporting. In many cases, we have already conducted causative research, developed corrective actions, and implemented improved processes to address the identified weaknesses. We remain committed to strengthening internal controls and enhancing our business processes.

3. We offer the following comments to the material weaknesses outlined in the report:

a. Material Weakness #1 – Lack of Marine Corps Oversight over Defense Finance and Accounting Service (DFAS). The Marine Corps acknowledges its ultimate accountability for all Marine Corps financial transactions and reports. However, the Marine Corps is not responsible, accountable, nor manned to provide direct oversight to DFAS. As the auditors note, we depend on DFAS to perform a wide range of financial and accounting services. Nevertheless, we agree with the need to clearly articulate roles and responsibilities and improve controls to ensure that Service Level Providers comply with all Financial Improvement and Audit Readiness (FIAR) requirements in support of the Marine Corps’ accounting and audit efforts, including their comprehensive system attestation evaluations. The Marine Corps needs to improve the Service Level Agreement (SLA) with DFAS to ensure the accurate and timely reconciliation of Marine





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ACTIVITY FOR FISCAL YEAR 2014 (CONTRACT NO. GS-23F-8196H)

Corps transactions contained in suspense, deposit, and clearing  
accounts.

b. Material Weakness #2 - Inadequate Management Review and Oversight of Marine Corps' Financial Reporting. The Marine Corps acknowledges the need to improve controls to ensure that its financial statements prepared by DFAS are in accordance with the Treasury Financial Manual (TFM). During FY 2014 quarterly financial reporting tie-outs, the Marine Corps failed to include lines that appeared on the United States Standard General Ledger (USSGL) SF-133 crosswalk on the Defense Departmental Reporting System - Budgetary (DDRS-B) SF-133s and therefore omitted the lines from the SBA. These discrepancies have been corrected.

c. Material Weakness #3 - Improper Application of Federal Accounting Standards and Guidelines. The Marine Corps acknowledges the need to improve controls to ensure that all financial transaction posting logic in the Marine Corps' core accounting system, Standard Accounting, Budgeting and Reporting System (SABRS), is in accordance with U.S. Generally Accepted Accounting Principles (GAAP). We will work with the Assistant Secretary of the Navy (ASN) Financial Management and Comptroller (FM&C), and the Office of the Undersecretary of Defense, Comptroller (OUSD(C)), to address instances where the Department of Defense (DoD) Financial Management Regulation (FMR) and other regulations may conflict with GAAP or require additional guidance to properly record all financial activity.

d. Material Weakness #4 - Invalid Authorization of Obligations. The Marine Corps acknowledges the need to improve controls to ensure that all necessary Departmental Accountable Officials (DAO) are properly appointed to execute their delegated authorities and responsibilities. We also recognize the need to develop and implement an automated solution to maintain such documentation so that it is readily available for review. We will work with ASN FM&C and OUSD(C) to develop and implement a comprehensive solution to retrieve such documentation from other services, agencies, and trading partners.



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ACTIVITY FOR FISCAL YEAR 2014 (CONTRACT NO. GS-23F-8196H)

e. Material Weakness #5 - Inability to Maintain Adequate Documentation. The Marine Corps has identified a need to improve controls to ensure that accurate and timely receipt and acceptance is performed and documented, both by the Marine Corps and external stakeholders. We also recognize the need to improve controls to ensure that we develop sufficient policies and procedures to address instances where financial information system limitations prevent the systemic generation, storage, or timely retrieval of adequate supporting documentation.

f. Material Weakness #6 - Inadequate A-123 Internal Control Program. The Marine Corps Managers' Internal Control Program (MICP) which implements A-123 is designed to provide reasonable assurance that effective and efficient internal control are in place throughout the Marine Corps and acknowledges the need to ensure that implementation and effectiveness is documented and thoroughly described. The Marine Corps does not concur with the assertion that the Marine Corps MICP program is currently ineffective or insufficiently resourced. While the dedicated resources at the Headquarters Marine Corps (HQMC) level may appear limited, the program is designed as a top-down governance, self-reporting framework that enables Commanders to leverage internal controls guidance and tools to proactively assess and identify weaknesses that may impair their ability to accomplish their assigned mission. At key echelons of command throughout the Marine Corps, individuals are appointed as Internal Control Managers for their respective organizations and contribute to ongoing review and reporting of internal control compliance. The Senior Assessment Team (SAT), chartered by the Assistant Commandant of the Marine Corps (ACMC) and chaired by the Fiscal Director of the Marine Corps was established in August of 2009 to provide oversight of the Marine Corps' implementation of Office of Management and Budget (OMB) Circular A-123. The Marine Corps' annual Statement of Assurance (SOA) is the result of proactive assessments and analysis conducted by numerous activities including; the Naval Audit Service (NAS), the Inspector General of the Marine Corps Inspector General (IGMC), the Programs and Resources Department (P&R), the Installations and Logistics Department (I&L), the Manpower and Reserve Affairs Department (M&RA), the Command, Control,



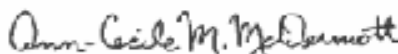


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ON THE UNITED STATES MARINE CORPS SCHEDULE OF BUDGETARY  
ACTIVITY FOR FISCAL YEAR 2014 (CONTRACT NO. GS-23F-9196H)

Communications and Computers Directorate (C4), all major  
subordinate commands, and others.

4. We look forward to working with Grant Thornton and other  
interested parties in future financial statement audits and  
related reviews.

  
A. M. McDERMOTT

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*For More Information*

**Fiscal Director of the Marine Corps  
Headquarters, Marine Corps  
Programs and Resources Department  
<http://www.hqmc.marines.mil/pandr/>**

